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INSURANCE

A PRACTICAL GUIDE FOR VARIOUS FORMS OF COVERAGE
THE POLICY CONTRACTS AND THE PROTECTION
AFFORDED PURCHASERS

By

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REVISED EDITION

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PREFACE

Both the wide acceptance of the original book and significant changes in the field of insurance have inspired the preparation of this revised edition. Many types of insurance have been extensively modified in practice. Many new kinds have been introduced to meet the special needs of buyers of insurance. The philosophy of the seller with regard to the buyer of insurance has undergone some change.

I have retained the original aim of the book, namely, to aid the buyer of insurance and the various people engaged in the service of insurance. Experience with the previous edition has shown that this approach also makes the volume better suited for use in college and university classes, since most students, when they enter the business world, will be on the buying rather than the selling side of insurance transactions. For the same reason the volume should have special appeal to all who purchase insurance protection, particularly to corporation treasurers and other officers responsible for the purchase of the proper lines and amounts of insurance.

Like the previous edition, the revised treatment includes not only the more usual types of insurance such as life, fire, marine, workmen's compensation, automobile, and accident and health insurance, but practically all the other lines which corporate officers and others must consider when making adequate provision against insurable risks—sprinkler leakage, water damage, explosion, riot, and civil commotion, rain, hail, windstorm, cyclone, and tornado, earthquake, live stock, inland marine in its varied forms, miscellaneous liability, professional liability, aviation, steam boiler and machinery, burglary, theft, larceny, and robbery, plate glass, credit, land title, and fidelity and surety bonds. On account of the many changes still in process, the subject of social insurance has been purposely omitted.

The fact that the volume reflects the viewpoint of the insurance buyer should not render it the less useful to all in the insurance business outside the comparatively few who are immediately concerned with the task of determining premium rates. For it must be remembered that, with the exception of the actuarial experts, the main body of people, whether they are purchasing or selling insurance, are simply interested in the insurance policy as a legal contract—the measure of protection it affords and its cost. They have no particular interest in the mathematical formulae and tables by which the cost is determined. Accordingly, while the basis of the premium charge is not ignored, the discussion is principally concerned with the analysis of the policy provisions for each of the various types of insurance—the rights and liabilities of the insurer and the insured—and an explanation of sundry clauses that may be appended to the policy in order to make it meet the particular requirements of the purchaser. In this connection it is important, since insurance practice is not uniform in all states, to carefully investigate local practices in any specific case. In order to round out the discussion, several chapters are devoted to the managerial, financial, and legal aspects of the insurance business and to reinsurance practiced between companies.

A set of new problems, based on actual experience in the insurance world, is published separately for classroom use and for those preparing for written examinations for insurance broker or insurance agent as conducted by several states.

The author wishes to make grateful acknowledgment to the many officials and employees of insurance companies and rating bureaus who have given generous assistance in his preparation of the work.

S. B. ACKERMAN

REVISED PRINTING

The reprinting of this book has given the author the opportunity of incorporating additional material and many new developments in the field of insurance to bring the book up to date. In some cases pages have been added in order to treat the subject adequately.

S. B. A.

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INSURANCE

CHAPTER 1

FUNDAMENTAL PRINCIPLES

Risks to Persons and Property.—The present economic structure is so organized that the uncertainties of life bear considerable consequence. The possibility that a catastrophe may occur unexpectedly and prevent the completion of plans and projects is of utmost importance to the individual interested. His daily life is fraught with the element of risk, the uncertainty of fortune, or the possibility of misfortune. He must be on his guard against calamities which he cannot foretell or avoid and which threaten to do him bodily or economic injury, or both. Such risks may be divided, accordingly, into two classes—risks to his person, and risks to his property. The important risks to his person are: *death*, *superannuation*, *accident*, and *sickness*. Important risks to his property include: *fire*; *marine*, that is, losses due to transportation of goods; destruction by human forces; destruction by natural forces, such as hail, windstorm, rain; and all forms of *casualty*, such as burglary or automobile property damage.

Solving the Economic Problem of Risk.—The economic problem of these risks may be solved in two ways. One is to reduce the risk as much as possible, and thus decrease the amount of possible losses. However, since certain types of economic catastrophes cannot be thus controlled completely, the reduction of the element of risk is possible only to a limited extent. The second and more important plan for alleviating the results of uncertainty is the use of insurance. Insurance distributes the cost of the risk over a large group of individuals subject to the same risk, in order to reimburse the few who actually suffer from the risk. For example, a study of past statistics in a city of 2,000 houses, each valued at \$10,000, may indicate that each year there are losses by fire amounting to

\$10,000. Every owner, therefore, knows that some of the houses will be damaged by fire, and that it is possible that his house may be one of those that will be burnt. Theoretically, if each owner contributed \$5 to a common fund annually, the risk would be covered and each owner would be freed from the fear of financial loss through fire. This principle of distributing risk is the basis of all insurance.

Insurance is a social device whereby one party, the insurer or insurance company, agrees to meet certain stated risks in return for a money consideration paid by a number of other parties, the insured. The money consideration is called the premium. A fire insurance company, for example, will, in consideration of the payment of a premium, issue a contract called a policy, in which the insurance company agrees to reimburse the insured for a fire loss but not in excess of the amount stated in the policy and with the provision that the loss occurs during the period for which the policy runs.

General Considerations and Provisions.—There are certain elementary considerations, and also certain provisions found in many policies, which it is desirable to discuss before the various particular branches of insurance are explained. These general considerations and provisions are:

- | | |
|--|---------------------------------|
| 1. Amount of possible loss | 12. Standardization of practice |
| 2. Element of gambling | 13. Subrogation |
| 3. Basis for determining amount of property loss | 14. Notification of loss |
| 4. Basis for rate-making | 15. Assignment of policy |
| 5. Merit rating | 16. Other insurance |
| 6. Deductible clauses | 17. Contribution clause |
| 7. Low rates versus high rates | 18. Bankruptcy clause |
| 8. Expenses | 19. Cancellation |
| 9. State supervision | 20. Return of premium |
| 10. Limitations of underwriting | 21. Minimum premium |
| 11. Federal versus state control | 22. Compulsory insurance |

Amount of Possible Loss.—It is difficult to think of any action that does not involve the risk of loss or injury. Insurance, however, is not designed to protect against every risk.

Suppose a man who uses eyeglasses finds it necessary to pay several times a year for repairs to his lenses. He may think that this is a risk that should be insured, and may be willing to pay a premium in advance to an insurance company for the latter's undertaking to pay for a stated period for any repairs that may be needed. He knows that there is a possibility that his lenses may suffer no damage during that period. On the other hand, he also knows that the lenses may break and the insurance company disburse to him much more than the amount of the premiums he paid. Nevertheless, insurance against this is not practicable. On the average, men who use eyeglasses pay scarcely \$5 annually for repair to glasses. The possible loss from such risk is so small that the individual can carry it himself without any difficulty.

On the other hand, a man who owns a house never knows when his house may be burned and he may suffer serious financial loss. Insurance is, therefore, needed in such a case since its purpose is to provide protection against losses which the individual cannot personally bear. Insurance aims to protect against the large unexpected loss and not the small average loss which each person may reasonably expect.

The Element of Gambling.—Since the purpose of insurance is to reimburse for loss, the contract to insure should be made only with one who is exposed to the risk. To extend insurance to one on property he does not own is to enter into a purely gambling contract with him—to bet as in a horse race—and generally from the point of view of law, gambling contracts are void. To secure a valid policy the insured must show that he would suffer a loss by virtue of his interest in the property insured.

Basis for Determining the Amount of Property Loss.—Since the function of insurance is to reimburse the policyholder for a loss, any contract which provides that the insured will be paid an amount in excess of his loss is against public policy. Suppose a contract was issued providing for the payment of \$1,000 to the owner of an automobile in case of theft. If the automobile was stolen and its value at the time was only \$250,

it would not be proper to pay the insured \$1,000. The usual basis of insurance for such a contingency is to compute the value at the time of the loss.

There are, however, certain circumstances in which the amount of the future loss should be agreed upon in advance. Illustrations of such cases are insurance on collections of coins, paintings, and curios. A painting may have no definite market value, nevertheless the owner may consider it very valuable; the same may be true of coin and curio collections. With no definite market value, there might be no way to determine the financial loss. Under such circumstances, insurance companies and policyholders should agree on the valuation of the articles before the loss occurs.

Basis for Rate-Making.—In order that the rates charged the insured may not be based upon conjecture, the insurance companies must have a sufficient number of risks to enable them to measure mathematically the chances of loss. They must base their estimations upon the law of average. Knowing the average amount of loss for a given period of time in the past, the companies can determine the amount of money to collect to pay for future losses over a definite period. They must, naturally, be sure that their data are accurate. The question then arises whether the total amount to be paid for losses should be divided among the policyholders equally or whether the premium charge should depend upon other factors as well. In practice, the companies try to make the rate approach a fair charge for the risk. This can be illustrated by the practice of making rates in many lines of insurance depend upon the territory in which the risk is located. Furthermore, in many lines all risks are classified into groups and different rates are charged for each group. In some lines risks are classified and each class is then considered individually. For example, in mercantile burglary insurance the class rates are subject to modification for the use of such devices as a burglar alarm system. As another illustration, life insurance rates are based upon age and may be modified according to the physical condition of the insured.

In theory, rates are made scientifically. But at least two factors militate against actual scientific accuracy:

1. The number of risks and the experience available may be too limited to offer a basis for determining a scientific rate, and judgment must be exercised.

2. The moral hazard is always present. There are individuals who attempt to benefit at the expense of the insurance system, setting fire to their property and collecting their loss from the insurance companies; or by committing suicide in order that the beneficiaries of their life insurance policies might obtain the proceeds. Insurance companies are constantly trying to guard against people who know how to become involved in accidents. Any attempt to provide for this tendency in the rate is not only impossible but also against public policy.

Merit Rating.—In order to interest the insured in the prevention of losses, class rates may be modified for individual risks. This method is really a form of reward and punishment. If the insured is lax in his interest, he will be forced to pay an increased premium. If, on the other hand, he tries to prevent losses, his reward will be a reduction in premium. Illustration of this procedure can be found in fire and workmen's compensation insurance. A manufacturer who insures his factory against fire will be charged an increased rate if his place is untidy. On the other hand, if he introduces devices which will prevent fire or the spread of fire, he will be granted a reduction in rate. In compensation insurance, the loss experience of employers is measured against the premiums they paid in the past. In general, an employer with a good experience is charged a lower rate than an employer in the same line of business with an experience not so satisfactory.

Deductible Clauses.—A question often discussed is whether the insurance company should pay for all losses regardless of size, or whether the liability should be limited to those larger losses which the insured cannot carry. Suppose a man buys an automobile and obtains insurance against damage due to collision with other objects. If he knows that the insurance

company will pay every petty claim, he may not try to avoid losses. On the other hand, if the policy does not provide payment for small claims, he will probably be more careful. Furthermore, if the policy excludes payment of a certain amount of each loss, insurance can be offered at lower rates, and the insurance company is relieved of the settlement and investigation of many claims. Two of the common methods used are:

1. The insured is required to bear part of each loss. Probably the most common illustration of this practice is the deductible clauses used in automobile collision insurance. A policy can be issued which provides that the insured should suffer the loss in each accident up to a certain amount. For example, suppose the policy was written with a \$100 deductible clause and a loss amounting to \$150 was sustained. The company's liability is \$50 and the insured must personally suffer a loss of \$100.

2. The insurance company agrees to pay only if the loss is in excess of a certain amount. An illustration of this practice is found in marine insurance, wherein the policies may provide that the insurance company shall not pay small losses; for example, losses of less than three per cent of the total amount of insurance. In this case, however, if the amount exceeds three per cent, the company pays the entire loss.

Low Rates Versus High Rates.—In many lines of insurance situations have developed requiring increased rates. If rates are constantly increased, the insured questions whether the cost is not too high as far as he is concerned; and under these circumstances the careful man is more liable to give up his insurance and the careless to continue it. If only the poorer risks remain insured, the rate will again be inadequate and will have to be increased. Realizing this situation, insurance companies aim to reduce rates by eliminating undesirable risks and by introducing devices whereby those who are insured will try to avoid such losses as are preventable.

Expenses of Insurance Companies.—The premiums charged for insurance provide for the payment of losses and for the expenses and profits of the company. Important groups of expenses are:

1. Acquisition cost
2. Office expenses
3. Inspection of risks
4. Investigation of claims
5. Taxes

The usual practice with regard to the percentages of the premium charged for expenses is to make no differentiation between a small and a large risk. For example, if one insured pays a premium of \$500, and another \$5,000, the percentage of the premiums charged for expenses is the same. A question arises as to whether this procedure is proper. Are the expenses of an insurance company a fixed proportion of the premium regardless of the size of the risk? There are many who believe that the percentages of expenses charged should vary inversely with the size of the risk. Such procedure would seem to follow a general law of business, namely, that of allowing the large purchaser a reduction on account of the lower cost of handling the business.

The amount expended for commissions in acquiring business has been severely criticized. The objection raised is that since insurance is a necessity, why should commissions be paid? The answers to this objection are as follows:

1. Few people will purchase insurance voluntarily; persuasion is necessary. In fact, some insurance companies look with doubt on people who voluntarily ask for insurance.

2. The business of insurance is complicated. Every insured should have an adviser who knows what policies will best meet his needs and how to obtain them at the lowest rate. This is expert service and should be properly compensated. The man who sells insurance should be not merely a salesman but also an expert adviser.

One of the items of expense is the portion of the premium paid to the state for taxes. The various states have placed a tax on premiums. This tax, unlike the income tax, is not based on profit, as it must be paid regardless of profit made or loss suffered by the insurance company. Every time a premium is paid to the company a portion must be set aside

for the premium tax and the company naturally includes this charge in the premium rate. There seems to be little justification for this tax, although it is easily collectible. The tax virtually penalizes prudence.

State Supervision.—Since the business of insurance affects every one and is therefore of public interest, it is subject to state regulation, which is tending to increase. This subject will be discussed further in the chapter on State Supervision. In general, laws have been passed which :

1. Regulate the organization of insurance companies.
2. Regulate representatives of insurance companies.
3. Standardize policy forms.
4. Regulate rates.
5. Regulate reserves of insurance companies maintained against future liabilities to policyholders.
6. Regulate investments which insurance companies may purchase.

Limitation of Underwriting.—Broadly speaking, there are five branches of insurance, as follows :

1. Life insurance
2. Fire insurance
3. Marine insurance
4. Casualty insurance
5. Fidelity and surety bonds

As a general rule, no one company is permitted to write all of these branches of insurance. One company may write life insurance; another, casualty insurance; a third, fire insurance. Fire insurance companies may write marine insurance, but are not usually permitted to write casualty insurance. Life insurance companies are not usually permitted to write fire, marine, or casualty insurance. In other words, limitation is frequently placed on the lines of insurance a company may write. However, in some states companies are not limited in the way described above. For example, life insurance companies are permitted to write accident insurance, which is a line written by casualty insurance companies; and fire insur-

ance companies are permitted to write automobile property damage insurance, which is a line written by casualty insurance companies.

There is constant agitation to do away with these limitations and to permit every company to write all lines of insurance. At the present time several companies, each writing different lines of insurance, are sometimes controlled by a single group of capitalists, a separate company being formed for life insurance, one for fire insurance, and one for casualty insurance.

The "All Risk" Policy.—The practice of limiting the branches of insurance that companies may write has been further complicated by the appearance of an "all risk" policy, issued especially by companies which are not organized in the United States. It has long been recognized that it is cumbersome and expensive to issue different policies to cover each type of risk for an insured, and that this practice compels the insured to study and analyze a large number of contracts if he wishes to be certain that all the various risks for which he desires coverage are insured. These difficulties are eliminated by the practice of alien companies issuing a policy covering in general various risks written by fire and casualty insurance companies. If American insurance companies are to compete with alien companies for this business, there must be a closer relationship especially between fire and casualty companies than there is at present.

Federal versus State Control.—The larger insurance companies transact business in the various states. Nevertheless, each company must meet the statutory requirements of every state in which it operates. This would not be burdensome if all the states had uniform laws. While insurance laws of the various states have in general similar provisions, there are enough differences to cause great inconvenience to the insurance companies. Moreover, meeting the requirements of the various laws involves an appreciable expenditure of money. The contention is made that insurance companies, in order to be subject to uniform laws, should be under federal supervision

rather than state supervision. This, however, can hardly be accomplished, since the courts have decided that insurance is not interstate commerce and is not subject to federal supervision. Although federal supervision might reduce expenses, it would have the following serious drawbacks: (1) harmful legislation would be far more serious if enacted by Congress than if enacted by a single state; (2) a centralized system could not properly handle situations which are purely local and do not involve any national problem.

Standardization of Practice.—The practice of insurance companies in the past was to prepare policies with whatever provisions each desired. Rates were based upon competition among the various companies. Two evils resulted: (1) In many cases the wording of the policy was such that many policyholders who believed that they were protected against loss could not collect when the loss occurred. This resulted in numerous court actions. (2) Competition in rates in some lines of insurance proved disastrous. Some companies found that they had accepted risks for which the premium was inadequate. The result was the inability to meet liabilities.

Insurance rates must not be placed so low that losses cannot be met. Executives of insurance companies saw the evils, and voluntary organizations were formed in several lines to provide standard uniform policies and to place rates on an adequate basis. The result is that companies are more stable and the purchasers of insurance have greater confidence in them.

Subrogation.—In many cases the insurance company pays the insured for losses for which third parties are liable. For example, if a man has his automobile insured against collision and collision occurs, the insurance company pays for the loss. The collision may have been due to the negligence of a third party. In such cases, if there had been no insurance, the insured would have sued the person responsible for the accident. If the insurance company pays the loss under the policy, the insurance company should be entitled to the right of the insured against the party responsible for the accident. Most policies provide that if another person is responsible for the

loss and the insurance company pays, the insurance company can be subrogated to the rights of the insured. In other words, the insurance company can demand reimbursement from the third party who is responsible for the loss. The company should be permitted to retain only the amount paid the insured, including disbursements, and any excess should be paid to the insured.

Notification of the Loss.—Insurance companies require immediate notice of a loss. The purpose of this requirement is obvious. For example, suppose an insured claimed a loss due to fire and notification was not received until two months after the fire, the insurance company could make little or no investigation to determine the cause of the fire and the actual amount of the loss. The requirement of immediate notice of loss has been made to protect the rights of the insurance companies. This provision is usually interpreted to mean notice within a reasonable time after the loss.

Assignment of Policy.—The policy contract is considered to be a personal contract between the insured and the insurance company. There is generally a provision in the policy which prohibits its assignment prior to loss without the consent of the insurance company.

Other Insurance.—When a person insures his property, or property in which he has an interest, against loss, the contract generally prohibits him from having additional insurance in other companies without the consent of the various insurance companies. The purpose of this clause is to prevent the insured from providing protection for his property in excess of the value of the property.

Contribution Clause.—If property is insured and then additional insurance is taken in another company, the policy usually provides that any loss which occurs shall be divided between the various insurance companies in proportion to the amount of insurance carried with each. Incidentally this clause, which is known as the "contribution clause," provides that the distribution shall be made regardless of the solvency or insol-

vency of any of the insurance companies. For example, assume that an insured has the following fire policies covering his property:

A Insurance Company.....	\$ 5,000
B Insurance Company.....	3,000
C Insurance Company.....	2,000
	<hr/>
Total.....	\$10,000

The insured has suffered a loss of \$1,000. Meanwhile the C Insurance Company has become insolvent. Nevertheless, the liability of Company A and Company B would be as follows:

Total insurance.....	\$10,000
A Insurance Company.....	.50 × \$1,000 = \$500
B Insurance Company.....	.30 × \$1,000 = \$300
	<hr/>
	\$800

Bankruptcy Clause.—Under policies which cover the legal liability of an insured, the insurance company is not liable for any judgment that cannot be enforced against the insured. For example, a man is insured against liability to others for damages. The damages have occurred and a judgment has been obtained against him. The insured, however, has become insolvent—the judgment against him is not enforceable. For this reason, the insurance company is not legally liable either, even though the policy covers liability to others. The company, however, is morally liable. Many policies make this clear in a clause required by statute, which states that the insolvency of the insured does not affect the liability of the company to pay any judgment recovered against the insured.

Cancellation of Insurance.—Since the contract of insurance is generally written for a definite period, there is usually a provision permitting either one of the parties to cancel their agreement. In a few instances the right of cancellation is placed only in the hands of the insured, and in some cases this right is available only to the insurance company.

Return of Premium.—In practice, the premium for a policy is usually payable in advance and covers a definite period of time. If the policy is cancelled before the end of the period

provided, the question arises whether any return of premium should be made by the insurance company. The insurance company was liable from the very first day to pay any loss, and the contention might be made that once it has assumed liability there should be no return of premium. If this practice were carried out, there would be a great dissatisfaction on the part of the insured, who paid the premium to cover his risk for a definite period. Therefore, a provision is usually made for a return premium in case the policy is cancelled either at the request of the insurance company or of the insured.

Minimum Premium.—The size of the premiums paid by the insured under many policies covering property loss, depends upon a number of varying factors. For example, in compensation insurance the premium depends upon the total payroll expenditures of the insured during any policy year. Suppose an employer is required to pay a rate of 25 cents for each \$100 of payroll for his workmen's compensation insurance policy, and also that his total payroll for the year is \$500. This would mean that his premium is \$1.25. As explained previously, this premium acts as a contribution to the payment of loss and of expenses. Obviously, the insurance company's expense in connection with the policy is greater than \$1.25. In view of this there is a requirement inserted in some policies that where the premium depends upon varying factors a minimum premium must be paid. There are diverse criticisms of the method by which the amount of this premium has been determined. Many contend that the policyholder paying a minimum premium receives more than his just share and that the minimum premium paid should be much higher. Others contend that, as a group, policyholders paying minimum premiums produce a profit for the insurance company.

Compulsory Insurance.—There is a tendency to require individuals who expose others to injuries to purchase insurance against such risks. An example of this tendency is the requirement imposed upon employers in various states to purchase workmen's compensation insurance. Another example is the requirement of some states that those who operate public

vehicles should purchase insurance protecting the public against loss due to accidents. These various laws have not been in force long enough to know all the effects of such legislation. It is certain, however, that if a compulsory law is properly enforced, those who suffer injury will, under ordinary circumstances, be paid if they are entitled to payment. No longer need the injured be concerned with the financial standing of the one who is liable for the accident. An insurance company will step in and pay the loss.

The statement has been made that compulsory insurance will lower the rates. This is based on the assumption that the larger volume of risks will surely be profitable. It has not worked out so in workmen's compensation insurance. In fact, rates have increased. This is due to: (1) the acts of the legislature constantly increasing benefits allowed to workmen; (2) lack of interest shown by many employers in the prevention of accidents; and (3) liberal attitude on the part of public officials deciding workmen's compensation cases.

Increase in the number insured will not necessarily decrease rates. In fact, the new policyholders may be very undesirable. Reduction in rates depends more upon the carefulness of the insured than the number of insured.

CHAPTER 2

THE VALUE OF INSURANCE

Two Methods of Insuring Against Risks.—As stated previously, the primary purpose of insurance is to eliminate a risk which may cause a loss that an individual cannot bear alone. There are two methods of handling the risk of uncertain losses: self-insurance and regular insurance. Anyone who uses the method of self-insurance sets aside a fund annually to meet the contingencies of possible losses, such as fire and any other hazard for which insurance is usually provided. The principal advantage of this method is that if no losses occur, or if small losses occur, the amount set aside may not be required, or a part of it may not be required.

The second method, and the method commonly used, is insurance. Although the various forms of insurance differ in their purposes, they all render practically the same benefits. The benefits rendered by insurance are many and are briefly discussed in the pages following.

Definite Sum Available for Uncertain Losses.—If an employer is a self-insurer, there is a possibility that a loss may occur before a sufficient reserve has been created. Under the system of insurance, however, for the consideration of a premium the insurance company is ready at all times to pay a loss for which it may be liable under the policy. In other words, the insured eliminates the danger of large uncertain losses by voluntarily assuming a small certain loss—the premium.

Certainty Substituted for Uncertainty.—If an insurance company limited its fire risk to one or two buildings, such a company would not be practicing the business of insurance, but would rather be engaged in gambling. Such procedure would be similar to that of two individuals entering into a wager whether or not a certain person would or would not die

in the following year. To limit the business to one or two risks would prevent the insurance company from making rates based upon scientific observations. However, by accepting risks on a sufficiently large number of properties, insurance companies are able to forecast scientifically the cost of carrying all the risks. Although the companies may be uncertain as to the probability of loss on one of the risks, they are practically certain as to the cost of covering all the buildings against fire. They accept small contributions from the majority, who will not sustain any loss, for the relief of the few, who will suffer losses.

Equitable Distribution of Cost of Losses.—Insurance effects an equitable distribution of the cost of losses. Each risk presents its own problem, and in order to levy a just charge the insurance companies must study this risk in connection with similar risks. Many individuals are unable to analyze properly the insurable hazards in their own and in similar businesses. The insurance companies, on the other hand, have built up a large and well-organized system for the proper determination of premium charges; and thus they make possible, not only the transfer of losses to a central organization for a small premium, but also, by means of the premiums, an equitable measurement of the hazards that are connected with a particular risk.

Worry Eliminated.—Insurance eliminates worry. If the institution of insurance had not been developed many undertakings which are assumed at the present time by business men would not be consummated. For example, a merchant may have occasion to send his cargo to a foreign country. He fears that if the ship sinks or is damaged, a severe loss may be incurred. However, if he carries marine insurance, the fear is eliminated, and he is prepared to take the chance that he would not take without the protection of insurance. Furthermore, insurance aids in expanding business already established. If a business man is freed from worry by insurance, he is more inclined to invest or borrow additional capital for building up a large business. For example, he might fear that if he erected a

new structure his capital investment might be lost by fire or some other contingency. Insurance gives him protection and confidence against all such contingencies.

Factor in Credit Granting.—Insurance extends the basis of credit. The entire system of business is made possible by the extension of credit. Practically every transaction at the present time is conducted on a credit basis, and relatively very little cash is used. Since credit is so essential in modern business, any venture which tends to further the extension of credit is of great importance. Practically all forms of insurance contribute to the important service of credit extension. To illustrate this statement, examples can be taken from the fields of fire insurance, marine insurance, life insurance, and credit insurance.

Suppose a manufacturer desires to obtain credit from his bank. One of the important questions asked by the bank is whether he has insurance to protect him in case of a fire loss. If he has no insurance, or an insufficient amount, he may, in case of fire, find himself unable to pay the loans the bank has extended to him. Therefore, the bank requires that the depositor should have a sufficient amount of fire insurance in order to protect its loans.

In financing foreign contracts, marine insurance is a very important factor. Foreign transactions usually involve the use of three documents, a draft, a bill of lading, and a marine insurance certificate covering goods described by the bill of lading. This marine insurance certificate may be given to a bank in connection with the draft sold to the bank. In case of the loss of the commodity, the credit extended by the bank is protected by the marine insurance certificate issued by the insurance company, covering against the marine loss.

The uses of life insurance as a basis for credit are many and varied. Frequently a bank requires that a depositor assign his life insurance policy to the bank in connection with the granting of a loan. Furthermore, many large corporations protect themselves against loss of credit standing, due to the possible death of an important member of the corporation, by pur-

chasing an amount of life insurance believed to be financially equivalent to the officer's value to the corporation. Again, in times of business depression, when money may be difficult to obtain, the life insurance company is ready to make loans upon the life insurance policy at advantageous rates to the policyholder.

Life insurance, fire insurance, and marine insurance are primarily beneficial to the credit standing of the individual.

Another form of insurance which aims to stabilize credit in general is credit insurance. Many business men have been forced into bankruptcy through unwise credit extension or failure of customers in time of economic depression. One of the purposes of credit insurance is to protect the business man against any credit losses above the amount that he usually suffers annually in his business.

Thrift Promoted.—Insurance encourages thrift. The usual method to encourage thrift is to open a savings bank account. However, a savings bank account has several disadvantages. These are as follows: (1) Premature death may prevent the individual from saving sufficient money to protect his dependents, if that is his aim. (2) There is a tendency to withdraw the money and often to use it for purposes of luxury. These two difficulties are overcome by the use of life insurance.

To illustrate this, assume a man desires \$10,000 to protect his dependents and can save only in small sums. By paying a small amount annually to an insurance company, he can obtain a policy for the desired amount, which will be paid to his dependents, although his death may occur prematurely and before he could have saved \$10,000 in his bank.

If he were to give up his policy prior to maturity he would receive a return of a certain amount of premium, an amount less than that which he had paid. The individual's reaction is that he does not want to lose any money paid by him, and he, therefore, continues paying on his policy.

Life insurance not only encourages thrift but may be said to be a form of compulsory saving. The reason for this is that each year the policyholder receives a notice concerning the

date the premium is due. He knows that he would suffer a loss if he permitted his policy to lapse.

Form of Investment.—Certain types of insurance provide a good investment. Life insurance, for example, may be purchased not merely as protection, but also as an investment. This is especially true of the endowment life insurance policy, which offers a safe investment and pays a fair rate of interest.

Life and Property Conserved.—Another advantage of insurance is that it conserves life and property. As the business of insurance grew, the insurance companies came to realize that the payment of loss was not the only element that had to be considered. Prevention of property losses and conservation of human life have become a dominant note in their aims. The tendency is to make the public realize that a premature death which could have been prevented, or a loss of property which was unnecessary, although compensated for by insurance, is nevertheless an economic loss to society. The idea of prevention of losses is not to eliminate the function of insurance companies but to reduce the premium rate as much as is consistent with solvency of the insurance company. Without prevention of loss the cost of insurance might grow so high that many would not purchase insurance protection.

To carry out the campaign of prevention, the insurance companies operate various services in practically every line of insurance that is written. For example, fire insurance companies maintain an inspection service which inspects the insured's premises and offers him valuable advice relating to fire prevention. Furthermore, they maintain organizations to educate the public in regard to fire prevention. Companies writing workmen's compensation insurance make frequent inspections of the insured's premises in order to see that machines have proper guards and that physical conditions are such that accidents will be reduced to a minimum. Companies writing automobile insurance inspect automobiles and make contributions to safety prevention organizations which aim to reduce automobile accidents.

The best illustration of prevention work can be shown in the

field of life insurance. Some companies maintain extensive medical and nursing service through which they attempt to reduce death and prevent sickness. Many life insurance companies provide for medical examination of policyholders at stated intervals of time.

Dependency Eliminated.—Insurance relieves the community from the necessity of caring for dependents in many cases. One individual may be killed by an automobile accident; another may be injured while working in a factory; a third may die prematurely. In each case the dependents may be reduced to poverty. However, if insurance protection has been purchased, the dependents will be provided with funds whereby they may take care of themselves.

Form of Old-Age Pension.—Old-age pensions are made available by means of insurance. Many individuals know that when they reach old age they will be unable to support themselves. If they do not provide themselves earlier in life with sufficient sums to take care of their old age they may become objects of charity. They may in their younger days invest certain sums with an insurance company annually, so that in their old age the insurance company will provide them with sufficient income for comfortable living. A life insurance company will issue a policy contract with two alternatives: either, in case of premature death of the policyholder, to provide protection for his dependents; or, if he survives to old age and the protection of dependents is no longer important, to give him a pension as long as he lives.

Guardian of Beneficiaries.—Insurance acts as a guardian of beneficiaries. Many beneficiaries under life insurance policies cannot properly care for the full sum of the insurance. The life insurance companies recognize this; and in many policies there is a provision requiring payment to the beneficiary of an annuity over a period of years instead of placing the principal sum in his hands all at one time.

Education Furthered.—General education is promoted by insurance. The insurance companies have come to realize that

they are charged with a public interest. They realize that they must educate the general public. Some of the important educational activities are as follows :

1. Preparation of a safety course against accidents due to automobiles, which can be used by schools.
2. Preparation of moving pictures, the purpose of which is the prevention of fire losses.
3. Participation in public health campaigns to teach people how to prevent and eliminate diseases.
4. Participation in maintenance of museums for the exhibition of safety devices.

Economic Development Promoted.—Insurance aids materially the economic development of the country. Insurance companies have set up vast reserves to meet future liabilities, and these liabilities must be met from the funds accumulated by them. The insurance companies have sought such investments as would be safe and yield a fair interest return. Large investments have been made by the companies in railroad securities, government securities, and real estate mortgages. These investments have without doubt helped the prosperity of this country.

CHAPTER 3

LIFE INSURANCE

Needs for Life Insurance.—Life insurance was one of the earliest branches of insurance to be developed for the reason that it helps the continuity of the family life of civilized men. It meets, as far as the family is concerned, the following important needs:

1. Provision for dependents after death.
2. Protection of the homestead.
3. Education of children.
4. Provision for expense in connection with death.

As long as the head of the family is living he can ordinarily support his family. It is very natural that during his life he should consider ways and means to prevent them from suffering financially after his death. For example, he may own a home upon which there is a mortgage; in case he should die, there might be no income with which to meet the mortgage payments and interest, in which event the family would lose its home. This can be avoided by a life insurance policy.

Another consideration is the cost of children's higher education. Generally a father meets such expenses by savings from his regular income. He should, therefore, during the early years of the life of his children, begin planning for their education and providing the necessary funds. There is always the possibility that the father may die before he has saved enough to provide for the higher education of his children. To meet this situation, life insurance companies offer fathers a policy on the lives of themselves or their children, payable at the age when the expense of the children's education should begin.

Illness prior to death, the circumstances of death itself, and its consequences give rise, as a rule, to many heavy expenses. The cost of doctors, nurses, burial, charges for administration

of the estate, and state and federal taxes materially diminish the principal of the estate. This contingency may be avoided by life insurance payable in a lump sum at death.

Though life insurance arose chiefly in response to the needs of family life, it answers two other great needs also: (1) the needs of the individual in old age; (2) the needs of business.

Needs of the Individual in Old Age.—The fact is well known that as man grows older, his economic value to society usually decreases. Men over 60 generally find it rather difficult to obtain positions in the business world. One way of looking upon this problem is to count upon the amount of money that has been accumulated. Another way to meet it is to buy life insurance which will mature when the insured reaches the age of 60 or 65. This form of life insurance provides either that the life insurance company will pay the individual policyholder the face of the policy at the time agreed upon, or that at his option it will pay him a pension as long as he lives. The amount of the pension to be paid will depend upon the amount of the insurance that has matured. If the insured desires, the policy can be so written that part of the principal sum is payable as a pension to the insured and the balance is payable upon his death to his beneficiary.

The Needs of Business.—The largest policies that have been written have been issued in connection with business needs. The principal business needs that life insurance can meet are the requirements of: (1) partners, (2) corporations, and (3) charity.

Assume that there are two men who have formed a partnership. They have a combined capital of \$50,000, each one having contributed an equal share. Upon the death of one of the partners, the representatives of his estate may demand that his share should be paid over to the estate. The surviving partner may find it necessary either to wind up the business, which would be very unfortunate if the business is profitable, or to obtain another partner, solely to supply financial aid. This difficulty can be avoided by the use of life insurance. If the partners pay for life insurance policies representing the interest in

the business payable to each surviving partner, the situation can be met. Upon the death of either partner the amount of the face of the policy is paid to the surviving partner, who in turn pays the share of the assets of the partnership to the estate of the deceased partner. A similar plan is also used in many corporations which are owned by a few stockholders.

Many corporations depend for their success upon a single employee. The death of such an individual would mean a large loss to the corporation. A number of corporations have attempted to estimate the capital value of such individuals to the corporation, and have purchased life insurance for the amount of that value. Upon the death of such an individual the corporation suffers no material loss, as it is compensated in insurance for the loss of his services.

Men have a tendency to make contributions to charity funds by means of life insurance. The policy is made payable to any designated charity, the premiums are paid by the donor, and upon his death the principal sum is paid to the charity. Thus the charitable purpose is effected without touching the capital of the donor's estate.

Types of Life Insurance Policies.—Generally life insurance policies are issued after a physical examination; and the premium, quoted on the basis of \$1,000 of insurance, is paid annually or at more frequent intervals. To meet the requirements of the great mass of individuals who purchase life insurance, the insurance companies have developed policies of various types. Of these the most important are:

Term Policy

Ordinary Life Policy

Limited Payment Life Policy

Endowment Policy

Although the rates for these types differ, they have the same mathematical basis and are designed to meet the cost of the benefits offered.

Term Policy.—A man of small financial means desires to protect his dependents by life insurance. Or he may be temporarily under obligation to pay a sum of money and he does

not want his family to be burdened with the obligation in case he dies before it is discharged. Term insurance is suitable for such cases.

A term policy is a contract in which the insured agrees to pay annual premiums for a certain limited period of time, provided he is alive, and the insurance company agrees to pay the principal sum stated in the policy to the beneficiary, provided death occurs within the limited time. If the premium is paid at intervals less than a year, that is, semi-annually, quarterly, or monthly, an extra charge is made. This also applies to the other types of policies.

A term policy can be illustrated as follows. An individual purchases a five-year term policy for \$5,000. In order that the beneficiary might collect, the insured must die within the five-year period. If he lives beyond that time, the insurance is no longer in force, as he has received all the benefits to which he was entitled under his term policy. Such a policy can include a provision for renewal at the end of the term, or for conversion into other types of life insurance.

Considerations in Purchasing Term Insurance.—The considerations in connection with the purchase of term insurance are as follows:

1. The immediate annual cost is lower than that of any other type of life insurance.

2. A temporary requirement is met.

3. If the insured survives the period for which the policy was written, there may be some dissatisfaction because he no longer has any protection. There may be difficulty in explaining to him that he has received all the benefits to which he was entitled under his policy.

4. Since rates for life insurance depend upon the age of the individual, if at the expiration of a term policy the holder desires another term policy, he will have to pay a higher rate.

5. Since this form of insurance can be purchased at a very low rate, there is the danger that risks of poor moral hazard are tempted to purchase it. The insurance companies avoid this situation, which is known as adverse selection, by care-

fully limiting the amount of insurance that they will sell to an individual under this plan.

6. If the term policy is written without the privilege of renewal or without the privilege of one of the other three types, except by a new medical examination, the policyholder may not be able to secure new insurance at the expiration of the term. The new examination may reveal that he is no longer an insurable risk, for proper physical condition is a prerequisite for the issuance of a life insurance policy. Thus he may no longer be able to use the institution of life insurance as a protection for his dependents.

Table 1 on page 32 illustrates the annual five-year convertible term premiums for \$1,000 insurance at various ages used by a participating company (that is, a company which pays dividends) and a non-participating company.

Ordinary Life Policy.—If an individual has a steady earning power which can be expected to continue throughout life, he may not be satisfied with term insurance, but may provide himself with an ordinary life insurance policy.

An ordinary life insurance policy is a contract in which the insured agrees to pay premiums at equal intervals of time during his entire lifetime, and the insurance company agrees to pay the face of the policy at any time upon the death of the insured. The considerations in connection with the purchase of the whole life policy are:

1. It can be purchased at the lowest premium for whole life protection.
2. If the insured desires to terminate or lapse his policy, he is entitled to certain privileges from the insurance company. These privileges are either to surrender his policy and receive a cash refund, or to receive a paid-up policy for a smaller amount and pay no further premiums, or to receive a term policy for the full amount for a definite period of time.
3. The insured must pay throughout life. If in later years he loses in economic value to society, he may find it difficult to meet the premiums, and therefore be compelled to lapse his policy. The life insurance companies have recognized the gen-

eral economic truth of the individual's decreased value to society, and have provided methods to avoid consequent loss of protection. One of the methods is to use the privilege of paid-up insurance.

4. The premium is higher than that of the term insurance policy. Table 1 shows the cost of a \$1,000 insurance policy under the ordinary life plan and the term insurance plan.

Limited Payment Life Policy.—A man may desire to avoid paying premiums in the later years of life and yet desire to protect his dependents at any time upon his death. This can be accomplished by the purchase of a limited payment life policy.

Under a limited payment life policy the insured agrees to pay premiums for a definite number of years provided he is alive, and the insurance company agrees to pay the beneficiary the principal sum upon the death of the insured. For example, under the 20-payment life plan the policyholder pays premiums for 20 years and then makes no further payments. Whether he dies before the 20 years have elapsed, or after, his beneficiary receives the principal sum. The following should be considered when purchasing the limited payment life policy:

1. Payment may be adjusted to the most productive period of life.

2. More liberal privileges are granted under this form than under the ordinary life insurance policy, for the obvious reason that premiums are higher for the same amount of protection. In view of this fact, if the insured desires to surrender his policy, the insurance company is able to offer a higher cash surrender value, a larger paid-up insurance policy, or a longer term insurance policy, than for an ordinary life insurance policy carried for the same period.

3. Since the premium is higher, less insurance can be purchased under this plan than under either term insurance or ordinary life insurance.

4. If the insured dies at any time prior to the due date of the last premium, he will, in effect, have paid more for the same amount of protection than he would have paid under ordinary life insurance or term insurance.

A table showing the annual premiums for a five-year convertible term policy, an ordinary life policy, and a limited payment life policy, at various ages, is given on page 32.

Endowment Policy.—Even if a man has no dependents, he may be interested in an endowment policy. The premium is payable for a limited number of years, for example, 20 years. If the insured lives to the maturity date, the insurance company pays him the amount of the face of the policy; if he dies before that time, the insurance company pays the amount to the beneficiary named in the policy.

In purchasing this form of policy, the following should be considered:

1. The principal sum is paid during the life of the insured if he is alive at the end of the policy period.

2. Since the principal sum is payable during the lifetime, the premium of such insurance is higher than term, ordinary life, or limited payment life policies.

3. In view of the higher premium, the insured may limit the amount of insurance. He can purchase more insurance (for the same amount of money) under the term, ordinary life, or limited payment plan than under the endowment plan.

4. Though life insurance has always stressed the idea of protection of dependents, under the endowment form of policy the theory that life insurance is purchased for the protection of dependents is subordinated and the investment feature is stressed.

5. The insurance company can offer more liberal privileges than under an ordinary life or under a limited payment life policy written for the same period of time, as the annual premium is highest for the endowment policy.

Table 1 on page 32 shows annual premiums for a 20-year endowment policy at various ages.

Variations of the Four Policy Forms.—To meet special needs, the four policy forms are issued with many variations. Some of these variations are:

- | | |
|------------------|-----------------------|
| 1. Modified life | 3. Family maintenance |
| 2. Family income | 4. Joint life |

1. **MODIFIED LIFE.**—A variation of the ordinary life policy is found in the modified life policy, designed for the man who is temporarily unable to pay the premium for an ordinary life policy. The annual premium for a limited period, for example, the first five years, is generally one-half the annual rate that must be paid after the five-year period. This temporary reduction is offset by a somewhat higher permanent rate than the insured would have paid for ordinary life at the beginning of his insurance. A variation of this form provides that the first year's premium is the lowest, and each premium thereafter increases until a specified time, after which the premium remains the same.

2. **FAMILY INCOME.**—The need for a policy giving additional protection during the period of heaviest family responsibility resulted in the development of the family income policy. To illustrate this form, assume the case of a man who has a wife and three children. Desiring to provide substantial income protection in event of his death before the children are self-supporting, he purchases a family income policy on the 20-year plan for \$10,000 on January 1, 1938. Should he die at any time prior to January 1, 1958, his wife will receive a monthly income until January 1, 1958, and on that date receive \$10,000 in a lump sum. If his death occurs after January 1, 1958, his beneficiary will receive the face value only, or \$10,000. This plan is, therefore, a combination of decreasing term and ordinary life insurance.

3. **FAMILY MAINTENANCE.**—This policy is similar to the family income policy. However, it does not contain the decreasing term insurance feature of the family income policy. The contract provides for payment on the death of the insured of an income for a fixed period, if he dies within the stipulated term, with a payment of a fixed amount when the income period terminates. The difference between the two policies is that whereas the amount of insurance available in the family income policy to purchase an income decreases from the date of issue of the policy, the family maintenance policy is effective for the full amount of the term insurance to purchase an income

if the insured dies within the term. If an insured purchased a family income policy with payments for 20 years and a family maintenance policy with payments for 20 years on the same day, if the insured lived, for example, for 15 years after the policies were issued, payments for five years would be paid to the beneficiary under the family income policy and subsequently the face amount of the policy. Under the family maintenance policy, payments would be made for 20 years after the death of the insured and the face amount stated in the policy would then be paid to the beneficiary. However, if the insured died 25 years after the issuance of the policies, the beneficiary would only receive the face amount of the policy under both policies.

4. **JOINT LIFE.**—Members of a partnership may desire to insure each other in order to provide the survivor with a sufficient sum to buy the interest of the deceased partner. This can be accomplished by purchasing individual policies on each partner's life. Another method that can be used is to purchase a joint life insurance policy, which provides for payment to the survivor on the death of one of the partners. The premium is less than the premiums for two individual policies. The insurance ceases on the life of the survivor, however, upon the death of one of the joint insurees.

TABLE 1. AMOUNT OF INSURANCE \$1,000

Age	5-Year Convertible Term		Ordinary Life		20-Payment Life		20-Year Endowment	
	Par.	Non-Par.	Par.	Non-Par.	Par.	Non-Par.	Par.	Non-Par.
25	\$10.61	\$ 8.49	\$20.14	\$15.78	\$30.12	\$24.78	\$48.15	\$43.07
30	11.15	8.68	22.85	18.21	32.87	27.36	48.83	43.41
35	11.96	9.31	26.35	21.42	36.22	30.59	49.85	44.18
40	13.28	10.85	30.94	25.68	40.38	34.64	51.48	45.60
45	15.96	13.71	37.08	31.30	45.73	39.70	54.22	48.01
50	21.44	18.26	45.45	38.75	52.87	46.14	58.81	51.87

Single Premium Plan.—Premiums for the various policies discussed in the above table are quoted on an annual premium basis. There is another and older method than the annual

premium plan, called the "single premium plan," in accordance with which the premium is paid in one lump sum to the life insurance company. The considerations, pro and con, in connection with this plan, are as follows:

1. Paying the whole premium at once, the purchaser knows the cost of the insurance in advance.

2. He does not have to fear that his policy will be lapsed because he no longer is able to meet his premium payments.

3. He can surrender the policy and receive a return of the cash surrender value which after a few years is larger than the original premium paid, or he can use the policy as collateral in connection with any bank loans that he desires to make.

4. This form of policy is very limited in appeal since only the wealthy can purchase adequate amounts.

5. The amount of insurance that can be so purchased is limited if the premium is paid from capital funds instead of income.

6. If the insured should live a long period of years, there is a possibility that the estate would have benefited more if the money had been invested.

At present, only a small proportion of life insurance contracts is purchased on the single premium plan.

Analysis of the Policy.—The life insurance policy can be divided into four sections: (1) general information, (2) rights of the policyholder, (3) restrictions, and (4) additional coverages.

1. General Information.—Under this heading are stated the amount of insurance; the name of the beneficiary; the age of the insured; the amount of the premium; how, when, and where the premium is payable; and the effective date.

2. Rights of Policyholders.—These are:

- (a) Grace period
- (b) Beneficiary
- (c) Incontestability
- (d) Reinstatement
- (e) Non-forfeiture values

- (f) Automatic premium loan
- (g) Loan privileges
- (h) Dividends
- (i) Optional modes of settlement

(a) **GRACE PERIOD.**—If the insured is unable to pay his premium when due, he is entitled to a grace period, usually one month, before the policy is lapsed.

(b) **BENEFICIARY.**—If the insured has reserved the right to change his beneficiary, the insured may change his beneficiary by notifying the insurance company of this fact. The insurance company will send him a blank to sign, which he must return together with the policy. The latter is then endorsed with the name of the new beneficiary.

(c) **INCONTESTABILITY.**—The policies of some companies are incontestable after one year, others after two years, except for non-payment of premium.

(d) **REINSTATEMENT.**—If the policy has been lapsed, the contract may be reinstated upon evidence satisfactory to the company that the former policyholder is a desirable risk. The company may require that the insured present a certificate of medical examination from a doctor selected by the company.

(e) **NON-FORFEITURE VALUES.**—An examination of the reserve tables shown on page 73 for ordinary life, limited payment, and endowment policies will disclose that the reserve held by the company increases with the number of years the policy is in force. Suppose the insured desires to cease payments on his policy. The life insurance companies are required to recognize that each insured has an interest in the reserve. At the present time, if the insured decides to cease payments on his policy, the companies are required by law to extend certain privileges to the insured for amounts stated in the policy. These are known as non-forfeiture privileges and are as follows:

1. *Cash Surrender.* The insurance company is required to return to the insured, if he decides to give up his policy, a portion of the reserve depending upon the number of years that he has owned his policy. As a general rule, he is not entitled to any

cash surrender at the end of the first or second year. This is due to the heavy expenditures required in connection with the writing of new business. For a number of years after the policy is in force, the amount he can receive is not the full reserve value but the reserve value reduced by a surrender charge. The reasons for making a surrender charge are:

(a) The insured who withdraws deprives the remaining policyholders of an amount equal to the share in the expenses that his premium contribution would have paid.

(b) The tendency is for healthy persons to exercise the cash surrender privilege. Anyone who believes he may not be able to obtain new insurance will not readily take his cash surrender value. Since the reserve is based upon average lives and not on adverse selection, a surrender charge is made. After a number of years have elapsed, the insured is paid the full share of the reserve set aside in connection with this policy.

2. *Extended Insurance.* If the insured does not desire the cash surrender value under his policy, he can use this surrender value to obtain from the life insurance company a term insurance policy for the same principal sum as his original policy. If the insured should die within this period the face amount of the policy is paid to the beneficiary. If the insured lives beyond the term, the beneficiary, of course, does not collect.

3. *Paid-up Insurance.* Should the insured desire permanent insurance without the payment of further premiums, the insurance company will retain the cash surrender value and give the insured a paid-up policy. Since no further premiums are paid by the insured, the amount of insurance provided by the paid-up policy is less than the original policy.

On term insurance policies there are no non-forfeiture privileges. However, some companies allow the insured to use the equity, if any, to purchase other forms of insurance.

Tables 2 to 4 show the surrender value, extended insurance, and paid-up insurance value on an ordinary life policy, a 20-year payment life policy, and a 20-year endowment policy, for \$1,000, as given by a non-participating and a participating company.

(f) **AUTOMATIC PREMIUM LOAN.**—To avoid lapse of an insurance policy by default on premium after the grace period, an automatic premium loan clause may permit the use of the cash surrender value as an automatic loan. The policy is thereby kept in force until the withdrawals made to pay the premium plus interest equal the cash surrender value.

This privilege avoids the need for reinstatement with proof of insurability, until the cash surrender value is entirely exhausted.

(g) **LOAN PRIVILEGE.**—One of the privileges of the policy provides that the insured is entitled to a loan from the insurance company up to the amount of his cash surrender value. An interest charge is made by the insurance carrier for this loan. Before the loan is made, the policyholder may be required to submit his policy to the company and have an endorsement made on it indicating that a loan has been made and the policy is then returned to him. When an insured makes a loan on his policy, the policy remains in force, provided he pays the premiums and interest charges. In case of death, the principal sum is paid minus the loan adjusted for interest accrued or prepaid.

For example, suppose an insured owned a \$5,000 policy and makes a loan of \$500. In case of death the beneficiary would receive \$4,500 subject to adjustment for interest charges. Protection against this deduction can be obtained by purchasing term insurance covering the amount of the loan.

(h) **DIVIDENDS.**—In making rates, three essential elements will be considered: (1) mortality rate, (2) interest rate, and (3) expenses.

The mortality experience, as developed, is usually more favorable than expected. This is probably due to the following factors:

1. Improved standard of living and improved housing conditions.
2. The use of literature concerning health education.
3. The development of the idea advocated by companies—that is, annual medical examination.
4. Instruction of the school population in personal hygiene.
5. Advance of medical science in diagnosis and surgical skill.

TABLE 2. ORDINARY LIFE—Non-forfeiture Values per \$1,000 of Insurance, Age 35

ANNUAL PREMIUM \$21.42
NON-PARTICIPATING

ANNUAL PREMIUM \$26.35
PARTICIPATING

Year	Cash or Loan Value	Paid-Up Insurance	Extended Term		End of Year	Cash or Loan Value	Paid-Up Insurance	Extended Term	
			Years	Days				Years	Days
2	\$ 23.95	\$ 61	—	—	2	\$ 11.13	\$ 26	1	89
3	32.93	82	2	253	3	27.26	62	3	16
4	41.82	102	3	243	4	43.77	97	4	313
5			4	215	5	60.66	132	6	235
6	51.99	125	5	221	6	77.94	167	8	126
7	66.17	155	6	357	7	95.61	201	9	328
8	80.77	185	8	93	8	113.68	234	11	99
9	95.81	215	9	148	9	129.65	262	12	86
10	111.26	244	10	152	10	146.01	289	13	20
11	127.15	273	11	106	11	162.76	316	13	268
12	143.44	302	12	11	12	179.87	343	14	107
13	160.14	329	12	234	13	197.35	369	14	270
14	177.22	357	13	52	14	215.16	395	15	32
15	194.65	383	13	198	15	233.28	420	15	127
16	212.41	409	13	311	16	251.68	445	15	195
17	230.47	434	14	30	17	270.34	469	15	238
18	248.81	459	14	87	18	289.22	492	15	258
19	279.42	505	14	336	19	308.32	515	15	260
20	310.75	549	15	187	20	327.58	537	15	244

TABLE 3. TWENTY-PAYMENT LIFE—Non-forfeiture Values per \$1,000 of Insurance, Age 35

ANNUAL PREMIUM \$30.59
NON-PARTICIPATING

ANNUAL PREMIUM \$36.22
PARTICIPATING

Year	Cash or Loan Value	Paid-Up Insurance	Extended Term		End of Year	Cash or Loan Value	Paid-Up Insurance	Extended Term	
			Years	Days				Years	Days
2	\$ 8.25	\$ 22	-	338	2	\$ 29.72	\$ 68	3	144
3	40.65	104	4	244	3	55.70	126	6	144
4	58.33	146	6	248	4	82.46	183	9	144
5	81.01	198	9	68	5	110.02	239	12	77
6	104.53	250	11	200	6	138.40	296	14	256
7	128.92	302	13	247	7	167.64	352	16	309
8	154.23	354	15	200	8	197.77	407	18	245
9	180.48	405	17	62	9	226.31	457	20	15
10	207.69	456	18	208	10	255.78	507	21	80
11	235.91	507	19	289	11	286.24	557	22	92
12	265.17	557	20	317	12	317.68	606	23	63
13	295.50	608	21	304	13	350.16	655	24	7
14	326.94	658	22	264	14	383.70	704	24	306
15	359.52	708	23	214	15	418.33	753	25	248
16	393.29	757	24	174	16	454.11	802	26	219
17	428.31	807	25	165	17	491.17	852	27	245
18	464.65	857	26	220	18	529.31	901	29	8
19	514.40	929	29	102	19	568.89	950	31	24
20	566.15	1000	Life		20	609.92	1000	Life	

TABLE 4. TWENTY-YEAR ENDOWMENT—Non-forfeiture Values per \$1,000 of Insurance, Age 35

ANNUAL PREMIUM \$44.18
NON-PARTICIPATING

ANNUAL PREMIUM \$49.85
PARTICIPATING

Year	Cash or Loan Value	Paid-Up Insurance	Extended Term		End of Year	Cash or Loan Value	Paid-Up Insurance	Extended Term	
			Years	Days & Cash*				Years	Days & Cash*
2	\$ 33.01	\$ 58	3	304	2	\$ 55.40	\$ 89	6	185
3	78.13	133	9	135	3	95.00	150	11	74
4	115.15	190	13	251	4	135.91	209	15	203
5	153.68	247	15	\$ 46.58	5	178.21	267	15	\$ 80
6	193.78	302	14	130.03	6	221.93	325	14	164
7	235.53	357	13	209.88	7	267.16	381	13	245
8	279.01	410	12	286.27	8	313.94	437	12	322
9	324.30	462	11	359.32	9	359.85	488	11	392
10	371.49	514	10	429.19	10	407.48	538	10	460
11	420.67	564	9	495.96	11	456.84	588	9	525
12	471.95	614	8	559.78	12	508.08	636	8	587
13	525.44	662	7	620.72	13	561.28	684	7	647
14	581.28	710	6	678.95	14	616.55	731	6	704
15	639.60	756	5	734.50	15	674.00	778	5	759
16	700.57	802	4	787.49	16	733.77	824	4	811
17	764.39	847	3	838.00	17	796.05	869	3	862
18	831.31	891	2	886.15	18	861.01	913	2	910
19	913.57	946	1	944.57	19	928.91	957	1	956
20	Matures	Matures			20	Matures	Matures		

* Cash payable if insured survives to maturity date.

Because of the more favorable mortality experience, the premiums paid are, after meeting necessary current charges and, in the absence of an epidemic, frequently more than sufficient to take care of the necessary reserves. A surplus is thus produced.

A surplus may also result from several other causes. Among these are investments and interest return. The rate of interest upon which many life insurance companies base their premium rates is 3%. Excess interest earning and profits on investments have frequently provided more funds than are necessary for maintenance of the reserves. Furthermore, the business of life insurance has taken such tremendous strides that the cost of doing business, in spite of the increased cost of wages and commodities, may be decreased. This factor will also tend to increase the surplus of the companies.

If the policyholder is insured in a non-participating stock company, he has no right to share in this surplus. The surplus is the property of the stockholders, unless the policy provides for participation. If he holds a policy issued by a mutual or participating company, he has an interest in the surplus; part of it is returned to him, and the balance is kept to meet various contingencies.

The share returned to the policyholder in a mutual or participating company is called a dividend, but this is a misnomer since the policyholder is not a stockholder. What is actually returned to him is a share of the surplus proportionate to the annual contribution he has made, that is, a refund. Generally at the end of the first year, on account of the heavy initial expense, he receives no return. Thereafter the so-called dividend is usually paid every year. To anticipate the annual dividend rate is impossible, because the mortality experience, return on investments and expenses of a particular company cannot be estimated accurately in advance.

DIVIDEND OPTIONS.—The insurance companies offer the following dividend options:

- (1) Cash.
- (2) Apply the dividend credits to reduce the premium.

- (3) Accumulate the refund with the company at interest.
- (4) Use the refund to purchase paid-up additional insurance, thereby increasing the face amount of the policy.

If option (3) or (4) is used, the accumulations may be used to shorten the premium paying period under his policy or to mature the policy as an endowment.

(i) **OPTIONAL MODES OF SETTLEMENT.**—The insured can provide that the life insurance proceeds should be payable in a lump sum upon the death of the insured. While the insured may have been able to handle large sums of money, the dependents in all probability have had little experience in business. Because of this inexperience the money obtained from the life insurance company may be dissipated. The primary motive, that is, the protection of dependents, would thus be defeated. To overcome this situation, life insurance companies offer income insurance. Instead of making the face of the policy payable in one lump sum, life underwriters may advocate that the principal sum should be paid to the dependents over a period of time on the monthly income plan, using various modes of settlement. If the insured has not chosen one of the optional modes of settlement, the beneficiary can make the selection instead of receiving the money in a lump sum.

The following are important methods of settlement that are used:

1. **Proceeds held at interest.** The proceeds can be retained by the insurance company for a definite period of time and interest will be paid the beneficiary during that period, after which the proceeds will be paid to the beneficiary.

If the beneficiary should die before all the funds are distributed the balance can be paid to a second beneficiary.

2. **Installments for a specified amount.** A specific amount can be paid to the beneficiary at specified intervals until the proceeds with interest is exhausted.

If the beneficiary should die before all the funds are exhausted, the balance can be distributed as in paragraph 1.

3. **Installments for a specified period.** Payments can be made to the beneficiary for a guaranteed number of periods of

time. If the beneficiary should die before that time, the balance of the payments can be paid to a second beneficiary or the present value of the unpaid installments will be paid in a lump sum to the second beneficiary. (The term "present value" will be explained on page 66.)

4. Installments for a specified period and life thereafter. Payments can be made for a guaranteed number of periods of time and in addition thereafter, provided the beneficiary is alive. If the beneficiary dies before the guaranteed period of time, the balance of payments for the guaranteed period will be distributed as in paragraph 3.

The following should be considered in connection with income insurance:

1. The beneficiary cannot dissipate the insurance money.

2. The insurance companies, which have a good record of safety, guarantee the payments.

3. If children are the beneficiaries, the insured can make certain that there will be funds to educate them.

4. The beneficiary is prevented from using the principal sum, although this may at times be more advantageous than receiving partial payments.

3. Restrictions.—Insurance policies carry restrictions affecting the actions of the insured and the liability of the insurance company. The policy therefore provides:

(a) **SUICIDE.**—If the insured, while sane or insane, commits suicide during a limited period, usually one or two years after the issuance of the policy, the insurance company is freed from liability except for the return of premiums paid.

(b) **MISSTATEMENT OF INSURED'S AGE.**—If the insured misstates his age, the insurance company is required to pay merely the amount which the premium would have purchased at the correct age. Assume, for example, the case of a man who stated his age as 30 and accordingly paid a premium of \$22.85 for a life insurance policy, whereas his true age was 35 and required a premium of \$26.35. This misstatement having been discovered, his beneficiary would receive on the insured's

death that portion of the full amount of insurance which \$22.85 would purchase at the age of 35.

(c) **ASSIGNMENT.**—The insured should notify the insurance company in case he assigns his policy. The assignment is made generally on blanks furnished by the company.

(d) **CHANGING POLICY TERMS.**—The policy terms cannot be modified by any agent and can be modified only by one of the authorized officers of the company.

4. Additional Coverages.—These are: (a) disability benefits, and (b) double indemnity benefits.

(a) **DISABILITY WAIVER OF PREMIUM BENEFITS.**—With the development of life insurance, it was discovered that a number of policies were lapsed because of the disability of the policyholder. The insured was injured or ill, and could no longer follow his regular occupation; or he was permanently and totally disabled. The insured would not have stopped payments but for the fact of the injury or disease. In consideration of an extra premium charge, some policies provide that if the insured is permanently and totally disabled before a certain age, he will not be required to pay any further premiums and his insurance will be continued. Several insurance companies issue a policy with a disability income feature in addition to waiver of premium. Different disability clauses are used by various companies. Payment of the income depends upon the definition of the words “permanently and totally disabled” in the policy.

There is no standard clause required. However, some of the provisions that may be found in the disability income clauses are:

1. The insured is entitled to the benefits if he has become totally disabled, as a result of body injury or disease before attaining a certain age of, say, 55, and is prevented from engaging in any business or occupation and performing work for compensation, gain, or profit.

2. The disability must have continued uninterruptedly for a definite period of time, such as six months.

3. The company will waive premiums the due date of which next follows the date of commencement of disability.

4. No premium will be waived if the due date is more than a definite period of time, say six months, prior to the date of receipt at the home office of written notice of claim.

5. Some companies will pay a monthly income of a percentage of the face of the policy for each month of continued disability. If the six months' period is used, the company is not liable for the first five months of disability nor for any fractional part of a month. Furthermore, the company is not responsible for a period of disability prior to six months of receipt of notice of claim at the home office. The amount payable under the policy is not reduced by any disability payment received by the insured.

6. The insured is entitled to dividends in a participating company, surrender and loan values as if the waived premiums had been paid.

7. If there is any indebtedness due to the company the latter can deduct the interest on the indebtedness from the monthly income payments.

8. Notice of claim must be received during the lifetime of the insured during the continuance of the disability and not later than six months after the insured has attained the age of, say, 55 years, unless it was impossible to have given such notice within such time and notice was then given as soon as reasonably possible.

9. The company can require the assured to furnish due proof of the continuance of disability and submit to medical examination by a medical examiner designated by the company. Failure to furnish proof or to submit to examination gives the company the right to suspend further payments if the company believes that the insured is no longer disabled.

10. Future monthly payments to become due to the insured will not be computed in one sum.

11. Disability payments will not be paid on any paid-up life or endowment or extended insurance granted by the company under the options on surrender or lapse of the policy.

12. The company is not liable for disability benefits if dis-

ability results from injury intentionally self-inflicted, from military or naval service or war, from engagement in aeronautics except as a passenger in a licensed aircraft operated by a licensed pilot on an established air line, or from bodily injury or disease which occurred before reinstatement of the disability agreement.

13. The company is entitled to demand proof of the date of birth. If the insured's age is incorrect, the disability payments will be reduced to that which the insured would have been entitled to for the premium paid at the correct age.

14. If the age of the insured at the date of his birthday nearest the date of the disability agreement was more than a certain age, for example, 45 years, no benefit will be paid, but he will be entitled to a premium refund, as the company does not issue any disability agreement contract if the insured's nearest birthday is 45.

15. If the insured is physically or mentally disabled or if at the date of death there are any disability benefits due, the company can pay the money to the beneficiary.

16. The agreement will be terminated upon the insured attaining the age of, say, 55, if he is not entitled to benefits before that time.

17. The agreement is not subject to the incontestable clause in the policy.

(b) DOUBLE INDEMNITY BENEFITS.—The policy may also contain an accidental death benefit called the double indemnity feature. There is no standard clause. However, some of the provisions that may be found in this clause are:

1. The accident must have occurred before the insured has attained a certain age of, say, 65 years, and before the end of the endowment period if the policy is an endowment form.

2. The company must be furnished with due proof that death resulted, exclusively of all other causes, from injury.

3. The injuries must have been effected solely through external violent and accidental means.

4. Death must have occurred within 90 days from the date of the injury.

5. Death did not occur due to:

- a.* Self-destruction of insured whether sane or insane.
- b.* Taking poison or the inhaling of gas whether voluntary or otherwise.
- c.* Any military or naval service or other work in connection with actual warfare.
- d.* Any civil war, insurrection, or riot.
- e.* From police duty.
- f.* From engagement or participation in aviation or aeronautics whether as a passenger or otherwise.
- g.* From submarine operations.
- h.* From bodily or mental infirmity or disease of any kind.
- i.* From bacterial infection other than bacterial infection occurring in connection with or in consequence of other bodily injuries.

Application for Life Insurance.—In order to obtain a policy, the prospective policyholder must sign an application and usually pass a medical examination. If found physically acceptable and if investigation discloses that he is a desirable risk, he receives a policy. The application contains essentially the following information:

1. Name, home or business address of the applicant.
2. Place and date of birth. The date of birth is required because the premium varies with the age.
3. Occupation of the insured. Although the insurance companies issue their policies freely to people employed in the various occupations, some companies except certain industries. For example, some insurance companies do not care to insure those engaged in structural iron work. If they do so, they demand a higher premium than that paid by the policyholder in a more desirable occupation.
4. Residence and travel. In many cases, the insurance companies do not care to issue policies to those leaving the United States to live abroad, and they, therefore, desire to know whether the applicant expects to go to any other country.

5. The question of other life insurance :

- (a) Whether the applicant has previously applied for an insurance policy in any other company.
- (b) Whether he has any other insurance in any other company, society, or association.
- (c) Whether he has any application pending anywhere else.
- (d) Whether the insurance applied for is intended to replace other insurance.

The purpose of these inquiries is to enable the insurance company to determine whether the insured has been previously examined by any other insurance organization and whether he is carrying more than sufficient for a man of his financial standing. (There is a central organization in which the record is kept of all applications rejected, postponed, rate increased, or any application that is not standard. False statements made in connection with this question can thus be checked by the insurance organization.)

6. The amount of insurance and kind of policy desired.

7. In mutual companies, the disposal of the dividends, i.e. :

- (a) Cash
- (b) Applied to reduce premiums
- (c) Accumulation at interest
- (d) Paid-up additional insurance

8. Name of beneficiary and his relationship to the insured.

9. Whether the insured reserves the right to change the beneficiary. If the insured does not desire to reserve this right, a new beneficiary cannot be substituted without the consent of the beneficiary named in the policy during the latter's life.

10. Declarations made to the medical examiner.

- (a) Weight and height. The insurance organizations have a standard table in connection with weight and height at each age, and serious variations from this standard place the medical examiner on guard.
- (b) The use of intoxicants and drugs.
- (c) Family history concerning the ages to which members of the family lived and whether they ever had any serious diseases.

- (d) Individual history. Minute questions are asked concerning the past physical condition of the applicant.

After the answers to these various questions are given, a medical examination is made by a physician acting for the company. An inspection report is also made to determine the applicant's personal reputation. If all this is satisfactory to the company, a policy is offered to the applicant.

Non-medical Insurance.—In some cases the tendency is to eliminate the medical examination and to depend upon the application for the issuance of a policy. In the main, this is due to: (1) the fact that the younger men who are probably in good physical condition will be encouraged to purchase life insurance policies; (2) the belief that any additional cost of extra mortality will be partly offset in the average case by the elimination of the expense for medical examination; (3) to aid the agents in selling additional insurance on lives already insured in the company.

Sub-standard Insurance.—Formerly the insurance companies did not issue policies to sub-standard lives, that is, those lives which did not meet the standard physical requirements. At the present time, in many cases, the insurance companies will issue policies to sub-standard lives. Some of the important methods used for sub-standard insurance are:

1. Charge the insured the rate for a higher age than the applicant's age.
2. Charge an extra premium.
3. Issue a particular type of policy, such as an endowment policy, which requires a higher premium than other types.

Insurance Trust.—As previously stated, in accordance with the terms of the policy contract the insured can require the company to pay the face amount of the policy in one sum or choose an optional method of settlement for the beneficiary. Sometimes an insured may find that the optional modes of settlement do not provide enough flexibility to accomplish his purpose. Under those circumstances, it may be advisable to provide for

the distribution of life insurance proceeds through an insurance trust. An insurance trust is an agreement whereby the proceeds of policies which the insured chooses to be subject to a trust agreement are collected by a trustee on the death of the insured. The trustee can then distribute the money in accordance with the terms whereby an insured can provide for the distribution of insurance proceeds in the same manner as though the funds were in his possession during his lifetime and were distributed in accordance with the terms of a will.

There are two forms of insurance trust. These are the unfunded trust and the funded trust. The unfunded trust is an agreement whereby the insured agrees to continue to pay the premium on his policies personally. The funded trust is an agreement under which the trustee agrees to pay the premiums. The insured assigns to the trustee sufficient securities of various types and the income from these securities is used to pay the premiums.

The following should be considered in deciding on the use of a trust.

1. The powers of a trustee are more flexible than the powers of a life insurance company. In rare instances has a life insurance company very flexible powers. If any unforeseen contingencies arise, the trustee can be given power under the terms of the trust agreement to meet these contingencies.

2. The proceeds of all the policies, regardless of the various companies which may have underwritten these policies, can be handled by a single trustee. If an optional mode of settlement were chosen, each company would have to handle funds available from the policies issued by the specific company.

3. The trustees may charge fees for the handling of funds, whereas the insurance companies make no charge.

4. The trustees may not have the wide investment experience of the insurance companies.

5. The trustees may be individuals and then provision will have to be made for succession of trustees.

Industrial Life Insurance.—Originally life insurance attracted only persons of means. With the development of the

annual premium plan the middle classes were able to purchase it also. There remained a great part of the population represented by the industrial class which was unable to purchase life insurance on an annual, a semi-annual, or a monthly premium basis; yet working people needed insurance and needed it especially for one purpose—to meet burial expenses. Thence arose industrial life insurance, of which the essential features are as follows:

1. The premium is collected usually by agents calling weekly at the home of the policyholder, instead of being mailed to the company's office, as in the practice of ordinary life insurance.

2. In the majority of cases there is no medical examination, since the amount of the policy is small. Issuance of the policy depends upon the questions answered by the applicant in his application and upon the statement of the agent who solicits the insurance that the applicant appears to be in good physical condition. However, if there is any doubt, a medical examination is required.

3. The premium is usually based upon units of five or ten cents.

4. Industrial insurance is family insurance. Its primary purpose is to meet the necessary expenses in connection with death. Therefore, there is frequently a policy in the family for each member of the family.

While different forms are used, industrial policies carry similar provisions, such as the following:

1. The insured may return the policy within two weeks from the date of issue, and all premiums paid will be returned.

2. There is a grace period of four weeks on premium subsequent to the first premium payment.

3. The insured may pay his premiums directly to the company, and after the payments of premiums for a year, an allowance of a percentage of the total of the year's premiums will be made.

4. The ordinary policy usually has a specified beneficiary or the amount of the policy is payable to the representative of the estate. The industrial policy may provide, however, in the ab-

sence of a designated beneficiary that the company may make payment or grant non-forfeiture privileges to any other person equitably entitled to compensation for having incurred expenses on behalf of the insured or for his burial.

5. The insured cannot assign his policy, a privilege granted in ordinary insurance.

6. The policy may be reinstated if payment of premiums has not stopped for more than one year. The insured must pay the amount of premiums in arrears and furnish satisfactory evidence of insurability.

7. Provision is made for cash surrender values and paid-up and extended insurance.

8. If the policy is issued by a participating company, provision is made for the payment of dividends.

9. The premium is waived for total disability, with provision for the payment immediately of a portion of the entire sum. Benefits are granted usually for the loss of both hands and both feet, or one hand and one foot or the sight of both eyes. Some policies provide for the payment of a disability benefit and the payment of the face of the policy on the death or at the termination of the endowment period.

10. The accidental death benefit is similar to that found in the ordinary policy. Moreover, the clause may provide that a reduced benefit will be paid for accidental death while the insured is employed in certain industries.

The policies issued by the industrial life insurance companies are usually similar in kind to those of the other life insurance companies, that is, ordinary life, limited payment, and endowment policies. In each kind, the value of the non-forfeiture privileges offered is relatively much smaller, because of: (1) the high cost of collection, owing to the required weekly visit of the collector; (2) the higher mortality experience, as compared with that of ordinary life insurance.

Group Life Insurance.—Many of the life insurance companies have succeeded in interesting large employers in life insurance for their employees. One of the claims made is that an

employer who purchases life insurance for his employees will render them more contented and therefore more useful.

Important features that may be found in group insurance contracts are:

1. The companies will usually insure employees of a given concern under a single group insurance policy without medical examination. If the state law requires medical examination the group policy will not be issued without the required medical examinations. Sometimes if an employee does not accept the benefits of group insurance immediately, he may be required to take an examination before a certificate will be issued to him. The right of the employee is not affected, however, if he is absent from the service of the employer temporarily or due to physical disability.

2. The policy is usually written on the one-year term plan.

3. In general, the rate charged depends upon: (a) type of business and (b) ages of employees.

4. The premium may be paid by contributions from the employer and the employee or by the employer without contributions from the employees. A minimum of 50 employees is usually required. If the premium is paid by the employees and the employer, the plan usually requires that 75% of the employees must become members. If the premium is paid by the employer, all eligible employees must usually be insured.

5. It is not necessary to include all employees. The contract may be limited to employees in various departments of the employer. However, a policy will not be issued where a few employees are picked from each department, because of the possibility of adverse selection.

6. The contract may provide that employees are not covered until they have been employed for a definite period of time. This eliminates the casual type of employee who has no intention of remaining with the employer.

7. Each employee receives a certificate that he is insured under a group insurance policy issued to the employer. The amounts of the certificates may vary. Plans that can be used to determine the amount of each certificate are: (a) each employee is given an equal amount; (b) the amount can be made to de-

pend upon the salary paid to each employee; (c) the amount can be made to vary with the length of service of the employee; (d) the amount can be made to depend upon the position held by the employee.

8. If the worker should leave the employer, he may continue the insurance for the amount indicated on the certificate by paying premiums at the regular rate charged to any other individual at his attained age, without any further examination. The worker must exercise this privilege within 31 days after termination of employment. He is entitled to any form of policy customarily issued for his age and class of risk except term insurance.

9. The employer must keep a record of all employees insured and the amount of insurance in force or previously discontinued on any employees and the date when employment became effective or was discontinued or decreased. Copies of the register must be furnished to the insurance company. Insurance is continued on an employee who is absent on account of sickness or injury, or on account of retirement on pension, or for a definite limited period of, say, two months, on account of leave of absence or temporary layoff. The employer, however, can terminate the rights of such employees by notice to the company or by ceasing to pay premiums for any of such employees.

10. The policy contains a grace period. If, however, the policy is cancelled during the grace period on the request of the employer, the insurance company is entitled to the pro-rata premium for the period commencing with the last due date and ending with the date of receipt of written notice to the company.

11. The policy will be renewed annually provided that in the case of contributory insurance not less than 75% of the number of eligible employees are insured and for non-contributory insurance not less than the total number of eligible employees are insured and in either case not less than 50 employees.

12. Although stock insurance companies do not usually pay dividends on policies, they have developed a method which provides for rate reductions on a group insurance policy. Under this plan reductions are made according to the experience under

the policy. The result produced is very similar to the granting of dividends by participating companies for group insurance.

13. There is no surrender value under a group insurance policy or certificate.

14. The insurance under the group policy is non-assignable.

15. Provision is sometimes made for group accident and health insurance and group hospital insurance.

Groups other than employees may use group insurance. Group insurance is permitted by some state laws for veteran organizations, members of a group of persons borrowing from one financial institution, members of labor unions, and military units.

The following should be considered in the purchase of this form of policy:

1. Insuring large groups under one policy and without individual examination enables the life insurance company to reduce expenses which can be considered in determining the premium.

2. The commission paid to the agent is proportionately smaller than for the usual types of policy.

3. The fact that a workingman is insured under a group life insurance policy gives him an interest in the subject of life insurance. He is the more likely to purchase a policy upon his individual life.

4. If the workman is insured individually, group insurance acts as a supplement to any other insurance that he may carry.

5. Loyalty between the employer and the employees may be fostered.

Wholesale Insurance.—Very similar to group insurance is wholesale life insurance. This is granted to employers with 10 to 49 employees, but instead of receiving a certificate, as in group insurance, each employee makes an application for insurance and may receive a policy. It is possible for the employer to pay part of the premium.

Salary Allotment Insurance.—This insurance plan is similar to wholesale insurance. It can be used by employers with a few employees insured. Each of the employees can choose

his own policy form. Medical examination may not be required. Under this plan the employer deducts the premium for the employee's policy from the earnings of the employee, and payment of premium is made monthly. It is possible for the employer to make a contribution for part of the premium.

Annuities.—In addition to life insurance policies, the insurance companies offer a contract called life annuity in which the insurance company agrees to pay an individual, called the annuitant, a fixed sum at equal intervals of time, provided he is living, in consideration of a lump sum paid in advance to the insurance company. For example, in one insurance company a man aged 60 pays \$10,000 in advance and the company agrees to pay him \$732.50 annually as long as he lives. Payments may be made annually, semi-annually, quarterly, or monthly.

No medical examination is needed in connection with the issuance of an annuity unless the annuity contract contains some feature of life insurance.

There are two classes of annuities. These are immediate and deferred. The immediate life annuity provides for payment at the end of the first period after the annuity has been purchased. For example, if the annuity is to be paid monthly, the first payment will be paid one month after the annuity has been purchased. The deferred life annuity is one in which the annuity payments commence at some future time, provided the annuitant is living, thus, 20 years after the payment of the premium.

The following are some of the annuity contracts that can be obtained:

1. Life annuity
2. Refund life annuity
3. Life annuity with guaranteed number of payments
4. Deferred life annuity
5. Deferred refund life annuity
6. Retirement annuity
7. Joint and survivorship annuity
8. Survivorship annuity
9. Temporary life annuity

1. **LIFE ANNUITY.**—The life annuity provides for the payment of an income for life. All payments cease with the payment which immediately precedes the death of the annuitant.

2. **REFUND LIFE ANNUITY.**—This annuity provides that the insurance company will pay an income for life to the annuitant. If, however, the total amount of money contributed by the annuitant was not paid to him prior to his death, the difference will be paid to a designated beneficiary. Suppose, for example, that the annuitant paid a single premium of \$10,000 for which he was to receive \$50 per month. Furthermore, assume that the insurance company paid the annuitant \$8,000 during his life. The balance of \$2,000 will be paid to the beneficiary designated in the annuity contract in monthly installments or as a cash refund. If the annuitant has received more income payments than he has contributed to the insurance company, for example, \$11,000, no payments will be made to the beneficiary.

3. **LIFE ANNUITY WITH GUARANTEED NUMBER OF PAYMENTS.**—This is similar to the refund annuity. The distinction, however, may be seen by the use of an illustration. Suppose the annuitant was to receive payments for life, but payments were guaranteed for a period of ten years and the annuitant died at the end of six years. Regardless of the amount of money received by the annuitant, the insurance company would be required to pay the designated beneficiary payments for the remaining four years. If, however, payments were made for a period of eleven years, no further amount would be due on the contract.

4. **DEFERRED LIFE ANNUITY.**—This is an annuity under which payment begins a definite number of years after the issuance of the contract. The premium may be paid in a single sum or over a period of time. Some of the provisions of this annuity agreement are: (a) a grace period is allowed; (b) there is no cash or loan value; (c) if the annuitant dies before the first payment is due the insurance company has no further obligation; (d) if the annuitant is unable to continue payment of premiums, a paid-up annuity may be issued providing for a

small annuity payment when the annuity payments are to commence.

5. DEFERRED REFUND LIFE ANNUITY.—This annuity is similar to the deferred life annuity, but provides that the total payments made to the annuitant must equal the amount contributed. Any unpaid balance or payments not received by the annuitant during his life must be paid to the beneficiary.

6. RETIREMENT ANNUITY.—This annuity contract is similar to the deferred annuity except that it contains many flexible provisions. The premium may be paid in one sum or annually, and the income commences at the end of the period stipulated in the contract. Some of the provisions of the agreement are:

(a) If before the date of the first payment, the annuitant dies the beneficiary will receive a stipulated amount which depends upon the number of premiums paid by the insured.

(b) Prior to the commencement of monthly income payments the annuitant has the following life income options: (1) A life income with guaranteed number of monthly payments. If the annuitant should die before receiving all the monthly payments, the balance (computed in one sum) will be paid to the beneficiary. (2) A life income with refund of the balance of the purchase price if at the date of the annuitant's death the cash value as applied to the purchase price of such income exceeds the income payments. The excess will be paid in one sum to the beneficiary. (3) A life income to the annuitant with no payment at the death of the annuitant.

(c) The contract provides for cash surrender value but there is no cash surrender value if the annuity payments have commenced.

(d) The contract may provide for loan privileges.

(e) If the annuitant stops payments, a paid-up contract will be issued providing for annuity payments depending upon the amount contributed.

(f) If the purchaser of the annuity desires to receive annuity payments earlier than the period of time selected originally, he may do so. If, for example, he desired his annuity to start at age 70 and subsequently requests a change of date to

60, the company will endorse the change on his contract. Of course, the amount of annuity paid will depend upon the contributions made by the purchaser.

7. JOINT AND SURVIVORSHIP ANNUITY.—The joint and survivorship annuity provides for an income payable during the joint life time of several annuitants. On the death of one of the annuitants payments continue as long as the other annuitants remain alive. This annuity may be suitable for a husband and wife, but the yield is not very high. Variation of the contract can be obtained by purchasing single annuity on each life and a joint and survivorship annuity on both lives. Thus, single annuities might be purchased on the lives of the husband and wife separately for \$100 per month each and a joint and survivorship annuity for \$100 per month on both lives. This will provide for an income of \$300 monthly during the life of husband and wife and \$200 monthly on the death of either the husband or wife.

8. SURVIVORSHIP ANNUITY.—This is an annuity which provides that upon the death of one person the annuity shall be paid to a designated beneficiary. Since the annuity will commence upon the death of the first person, the contract is issued upon the insurability as shown by medical examination of the purchaser of the contract. The form is therefore a combination of life insurance and annuity. Some of the provisions of the agreement are: (a) If the annuitant dies before the insured, the contract is terminated. (b) A paid-up policy will be issued providing for smaller payments to the annuitant, if the insured is unable to continue payments. (c) There is no cash surrender value. (d) The policy may also provide that when the insured reaches a specified age he shall receive an annuity and on his death the beneficiary shall then receive the annuity.

9. TEMPORARY LIFE ANNUITIES.—Under this form payment is made for a temporary period. Some forms provide that if the annuitant dies before the termination of the temporary period the balance of the purchase price will be paid to a designated beneficiary.

Considerations when Purchasing Annuity.—The business of annuities is the reverse of the business of life insurance. If a man purchases a life insurance policy, he pays a fixed sum at equal intervals, provided he is living. Upon his death, his dependents receive the face of the policy. If a man purchases an annuity, he pays a fixed sum to the life insurance company, in return for equal sums of money payable to him at equal intervals of time until his death or termination of the annuity period. The following should be considered in connection with the purchase of an annuity:

1. The annuity is extremely valuable in old age.
2. Since payments are usually made only provided the annuitant is living, the life insurance companies can offer a better annual return based upon the lump sum paid than any other stable financial institution. The insurance companies can take two facts into consideration in computing payments: (a) the interest that will be earned upon the sum invested, (b) the probability of the death of the annuitant, which may stop further payments.
3. If death occurs prematurely, the return on the money paid during the annuity period may be much smaller than the amount that could have been obtained from other forms of investment.

The following tables show the premium charge at various ages as used by a non-participating company, for a life annuity for which \$100 will be paid annually and the annual amount of life annuity that can be purchased for \$1,000.

Group Annuities.—Many organizations engaged in various kinds of business in the United States have established pension or retirement plans primarily to provide old age incomes for employees when they are retired.

Some of these plans are financed by an annual appropriation on the part of the employer to cover the cost of pensions for employees on the pension roll each year. In other instances certain reserves are accumulated in advance toward the payment of pension benefits in the future. Many employers provide retirement plans for their employees through the medium

of a group annuity contract with an insurance company under which payments are made monthly to the insurance company for the purchase during the active working life of each em-

TABLE 5. ANNUITY RATES (NON-PARTICIPATING)—SINGLE PREMIUM FOR AN ANNUITY OF \$100 ANNUALLY

Age Last Birthday		Life Annuity	Installment Refund Annuity	Cash Refund Annuity
Male	Female			
25	30	\$2,572.90	\$2,633.50	\$2,648.70
30	35	2,437.60	2,515.10	2,534.00
35	40	2,286.90	2,386.20	2,410.00
40	45	2,122.50	2,247.80	2,277.50
45	50	1,945.70	2,100.70	2,137.30
50	55	1,758.50	1,946.30	1,990.40
55	60	1,563.70	1,786.10	1,838.70
60	65	1,365.20	1,622.20	1,683.70
65	70	1,167.60	1,457.20	1,528.20
70	75	976.10	1,293.10	1,374.40
75	80	795.70	1,133.90	1,225.40
80	85	631.10	981.60	1,084.60

TABLE 6. ANNUITY RATES (NON-PARTICIPATING)—ANNUAL ANNUITY PURCHASED BY PREMIUM OF \$1,000

Age Last Birthday		Life Annuity	Installment Refund Annuity	Cash Refund Annuity
Male	Female			
25	30	\$38.87	\$37.97	\$37.75
30	35	41.02	39.76	39.46
35	40	43.73	41.91	41.49
40	45	47.11	44.49	43.91
45	50	51.40	47.60	46.79
50	55	56.87	51.38	50.24
55	60	63.95	55.99	54.39
60	65	73.25	61.64	59.39
65	70	85.65	68.62	65.44
70	75	102.45	77.33	72.76
75	80	125.68	88.19	81.61
80	85	158.45	101.87	92.20

ployee of deferred annuities. These annuities begin paying life incomes to employees included in the plan upon retirement at a specified age or under certain predetermined conditions.

The plans used by insurance companies may be either contributory where the employer and employees each pay a part of

the cost or they may be non-contributory with the employer paying the entire cost.

Provisions usually found in such contracts are :

1. If the plan is non-contributory, all of the employees must be included or all of certain classes, subject sometimes to limitations as to age and salary.

2. The minimum number of employees usually required is 50 and not less than 75% of all who are eligible must participate if the plan is contributory.

3. Sometimes all present employees are included or there may be a probationary period, for example, of six months or a year of service, for both present and new employees.

4. The normal retirement age may be 60, 65, or 70 for male employees with the preference in favor of 65; female employees frequently have a normal retirement age of 60 or even 55, although since the advent of the Social Security Act the tendency is to make the retirement age for women 65 to conform with the normal retirement age in the Act. There is usually a provision for retirement at an age earlier or later in individual cases.

5. In order to promote clearer understanding of the plan by employees and to eliminate unnecessary administrative detail, employees are usually grouped in salary classes for the purpose of the plan. Thus if the benefit is 2% annually, an employee who has been a member of the plan for 25 years before retirement would receive a retirement income of approximately 50% of his average annual salary during his period of membership.

6. If the plan is contributory the employee usually contributes according to his salary class. The employer pays the balance of the net cost of providing the benefits.

7. When an employee dies his beneficiary usually receives the amount of the employee's contributions with or without interest as the plan may provide, less any retirement income which may have been paid.

8. The employee may withdraw from the plan. He usually then has the option of the return of his contributions with or without interest, or a paid-up annuity based on his contributions to date which will commence to pay him an income at the

normal retirement age. There is a tendency for employers to agree that if the employee withdrawing elects the second option and if he has had a prescribed period of membership in the plan, such as 5 or 10 years, he will also receive a paid-up annuity based on the contributions which the employer has paid to the date of the employee's withdrawal.

9. In the event that an employee withdraws and takes his own money in cash, the employer usually receives a credit of the amount which he has contributed for that employee plus interest accretions.

10. As a general rule there is no direct credit to the employer in the event of the death of an employee, since the employer's contributions are generally used to purchase that form of annuity where the expected mortality is taken into consideration in advance, namely, the simple annuity.

11. If the group annuities contract is issued by a participating or mutual insurance company, the employer may also receive dividends based on experience. If the contract is issued by a stock company, rate reductions may be allowed.

12. When a plan is established there are usually employees in the organization already at the older ages who therefore will not have time before reaching normal retirement age to build up even a reasonably adequate retirement income. It has been customary, therefore, to have benefits purchased by the employer based on service performed by these older employees before the adoption of the plan. Benefits for past service, which are generally based on salary at the adoption of the plan, are usually slightly less than benefits for future service toward which the employees are contributing. All years of prior service performed by the employee may be taken into consideration in connection with the past service benefit, or past service may be recognized only back to a certain age. The employer may purchase in a single payment at the time of the adoption of the plan all of the annuities necessary to provide the full past service benefits. If this is not feasible the cost of these benefits may often be spread over a period of years into the future, so that the cost may be liquidated by a series of annual payments.

In connection with the subject it is well to remember that the Federal Social Security Act provides for certain retirement benefits based on the first \$3,000 of annual salary and also certain taxes paid by employer and employees. Since the enactment of this legislation some employers are establishing privately insured retirement plans to be operated independently of the Social Security Act but so constructed that the total benefits received from the private plan and from the Social Security Act will be approximately the same as those which formerly were provided under many private plans alone.

Making of Life Insurance Rates.—The premium paid for any life insurance policy must provide for two elements: (1) payment of death claims, which is called mortality cost; (2) payment of expenses, which is known as the loading.

In order to determine the cost of life insurance, assume that individuals aged 20, 40, and 60 respectively are each applicants for a policy for \$10,000. The insurance companies would have to charge the one aged 60 the highest rate of premium, for the obvious reason that they must take into consideration his lesser chances of living. For a long time the insurance companies have been studying methods to make the rates charged at each age proportionate to the risk assumed. This has resulted in mortality tables which aim to measure accurately the rate of mortality at each age.

Mortality Tables.—A mortality table can be constructed by studying the life history of a large number of individuals. Several of these studies have been made and tables have been prepared showing the chances of living at various ages. Table 7, in general use by insurance companies for many years, is called the American Experience Table.

Value of Mortality Tables.—The American Experience Table can be used to illustrate the value of such a compilation for life insurance. For example, a company which has adopted the American Experience Table as a basis for mortality experience desires to sell a one-year term policy at age 35 for \$1,000. By looking at the table, the company finds that of 81,822 persons aged 35, 732 are likely to die during the year,

TABLE 7. AMERICAN EXPERIENCE TABLE OF MORTALITY

Age	Number Living	Number Dying	Yearly Probability of Dying	Age	Number Living	Number Dying	Yearly Probability of Dying
10	100,000	749	.007490	53	66,797	1091	.016333
11	99,251	746	.007516	54	65,706	1143	.017396
12	98,505	743	.007543	55	64,563	1199	.018571
13	97,762	740	.007569	56	63,364	1260	.019885
14	97,022	737	.007596	57	62,104	1325	.021335
15	96,285	735	.007634	58	60,779	1394	.022936
16	95,550	732	.007661	59	59,385	1468	.024720
17	94,818	729	.007688	60	57,917	1546	.026693
18	94,089	727	.007727	61	56,371	1628	.028880
19	93,362	725	.007765	62	54,743	1713	.031292
20	92,637	723	.007805	63	53,030	1800	.033943
21	91,914	722	.007855	64	51,230	1889	.036873
22	91,192	721	.007906	65	49,341	1980	.040129
23	90,471	720	.007958	66	47,361	2070	.043707
24	89,751	719	.008011	67	45,291	2158	.047647
25	89,032	718	.008065	68	43,133	2243	.052002
26	88,314	718	.008130	69	40,890	2321	.056762
27	87,596	718	.008197	70	38,569	2391	.061993
28	86,878	718	.008264	71	36,178	2448	.067665
29	86,160	719	.008345	72	33,730	2487	.073733
30	85,441	720	.008427	73	31,243	2505	.080178
31	84,721	721	.008510	74	28,738	2501	.087028
32	84,000	723	.008607	75	26,237	2476	.094371
33	83,277	726	.008718	76	23,761	2431	.102311
34	82,551	729	.008831	77	21,330	2369	.111064
35	81,822	732	.008946	78	18,961	2291	.120827
36	81,090	737	.009089	79	16,670	2196	.131734
37	80,353	742	.009234	80	14,474	2091	.144466
38	79,611	749	.009408	81	12,383	1964	.158605
39	78,862	756	.009586	82	10,419	1816	.174297
40	78,106	765	.009794	83	8,603	1648	.191561
41	77,341	774	.010008	84	6,955	1470	.211359
42	76,567	785	.010252	85	5,485	1292	.235552
43	75,782	797	.010517	86	4,193	1114	.265681
44	74,985	812	.010829	87	3,079	933	.303020
45	74,173	828	.011163	88	2,146	744	.346692
46	73,345	848	.011562	89	1,402	555	.395863
47	72,497	870	.012000	90	847	385	.454545
48	71,627	896	.012509	91	462	246	.532466
49	70,731	927	.013106	92	216	137	.634259
50	69,804	962	.013781	93	79	58	.734177
51	68,842	1001	.014541	94	21	18	.857143
52	67,841	1044	.015389	95	3	3	1.000000

and that the theoretical total cost for 81,822 persons aged 35 purchasing \$1,000 one-year term policies is \$732,000. By dividing the \$732,000 among the 81,822 persons, the company can approximate the mortality charge to be made per person for one-year term insurance. If the company desires to sell a two-year term insurance policy to a person aged 35, the company knows that there will be paid \$732,000 plus \$737,000, the figure for age 36, or a total of \$1,469,000. This amount must also be divided among the original 81,822 individuals.

Since life insurance premiums are paid in advance, a further factor must be considered. As stated in the preceding paragraph, the mortality cost of a one-year term policy for \$1,000 at age 35 to each contributor may be determined by the following method: $\$732,000 \div 81,822 = \8.946 .

However, since the premium is paid in advance, the amount of \$8.946 is not the actual mortality cost. The money paid by the insured in advance would earn interest and theoretically death claims are assumed to be paid at the end of the year. If the assumption is made that the insurance company earns 3% interest on money, at the end of the year it would have \$732,000, plus \$21,960 which equals \$753,960. The latter amount is more than necessary to meet the death claims. The insurance companies should not demand \$732,000 in advance from the 81,822 contributors, but such an amount as would equal \$732,000 at the end of the year if invested at 3%.

In order to understand how this amount is determined, the effect of compound interest on money invested must be mentioned. If \$1.00 were invested at 3% interest, at the end of the first year the value of the investment would be \$1.00 plus \$.03, or \$1.03. If the accumulated money, that is, \$1.03, were reinvested at the same rate of interest, the value of the investment at the end of the two years would be $\$1.03 \times 1.03$, which equals \$1.0609. If the investment, that is, \$1.0609, were again reinvested at the same rate of interest, the value of the amount would be $\$1.0609 \times 1.03$, which equals \$1.0927. Table 8 will show the value of \$1.00 accumulated at 3% at the end of various years.

Suppose it is desired to know what amount must be invested

to accumulate to \$1.00 at the end of the first year, if the money is invested at 3% interest. From the table shown, if \$1.00 were invested at the beginning of the year at 3%, the accumu-

TABLE 8. AMOUNT TO WHICH \$1.00 ACCUMULATES AT 3% AFTER
END OF VARIOUS YEARS

Year		Year		Year	
1	\$1.0300	21	\$1.8603	41	\$3.3599
2	1.0609	22	1.9161	42	3.4607
3	1.0927	23	1.9736	43	3.5645
4	1.1255	24	2.0328	44	3.6715
5	1.1593	25	2.0938	45	3.7816
6	1.1941	26	2.1566	46	3.8940
7	1.2299	27	2.2213	47	4.0119
8	1.2668	28	2.2879	48	4.1323
9	1.3048	29	2.3566	49	4.2562
10	1.3439	30	2.4273	50	4.3839
11	1.3842	31	2.5001		
12	1.4258	32	2.5751		
13	1.4685	33	2.6523		
14	1.5126	34	2.7319		
15	1.5580	35	2.8139		
16	1.6047	36	2.8983		
17	1.6528	37	2.9852		
18	1.7024	38	3.0748		
19	1.7535	39	3.1670		
20	1.8061	40	3.2620		

lated amount would be \$1.03. Therefore, if the accumulated amount will be \$1.00 at the end of the year, the value at the beginning of the year is $\$1.00 \div 1.03$, or \$.970874. This can be proved arithmetically as follows: $\$.97084 \times 1.03 = \1.00 . Similarly, if it is desired to know what amount invested at 3% for two years will amount to \$1.00, it may be obtained thus: $\$1.00 \div 1.0609 = \$.942596$.

The amount invested at the beginning of the period is called the present worth. Table 9 shows the present worth or value required to be invested at the beginning of a year for a term of years, which accumulates to \$1.00 at the end of the term if the interest rate is 3%.

By the use of a mortality table and an interest table, the various life insurance companies can determine the mortality cost to be charged for any policy. If the insurance company,

under a one-year term policy at age 35, were required to pay \$732,000 at the end of the year, based upon the American Experience Table, the amount required to be paid in advance,

TABLE 9. PRESENT WORTH OF INITIAL INVESTMENT TO ACCUMULATE TO \$1.00 AT THE END OF A TERM OF YEARS AT 3%

Year		Year		Year	
1	\$.970874	21	\$.537549	41	\$.297628
2	.942596	22	.521893	42	.288959
3	.915142	23	.506692	43	.280543
4	.888487	24	.491934	44	.272372
5	.862609	25	.477606	45	.264439
6	.837484	26	.463695	46	.256737
7	.813092	27	.450189	47	.249259
8	.789409	28	.437077	48	.241999
9	.766417	29	.424346	49	.234950
10	.744094	30	.411987	50	.228107
11	.722421	31	.399987		
12	.701380	32	.388337		
13	.680951	33	.377026		
14	.661118	34	.366045		
15	.641862	35	.355383		
16	.623167	36	.345032		
17	.605016	37	.334983		
18	.587395	38	.325226		
19	.570286	39	.315754		
20	.553676	40	.306557		

if the assumed rate of interest was 3%, would be as follows: $\$732,000 \div 1.03$ or $\$732,000 \times .970874$, which equals \$710,679.768. If this amount were distributed among 81,822 people, the cost of mortality at age 35 for a one-year term policy would be $\$710,679.768 \div 81,822 = \8.686 .

If the insured should desire a five-year term policy at age 35, the cost of mortality would be determined as follows:

Due at End of Year	Present Value of \$1.00	Death Claims Payable	Present Value of Death Claims
1.....	\$.970874	$\times \$732,000$	= \$ 710,679.768
2.....	.942596	$\times 737,000$	= 694,693.252
3.....	.915142	$\times 742,000$	= 679,035.364
4.....	.888487	$\times 749,000$	= 665,476.763
5.....	.862609	$\times 756,000$	= 652,132.404
Total present value of death claims during the entire five years.....			= \$3,402,017.551

If \$3,402,017.551 is divided by 81,822, the number living at the beginning of the period, the result, \$41.578, represents the net cost of a five-year term policy at age 35. This can be arithmetically represented as follows: $\$3,402,017.551 \div 81,822 = \41.578 .

The mortality cost computed on the theory that the contribution is made by the insured in one sum instead of annually is called the net single premium. The procedure outlined above can be used to determine the net single premium for the whole life policy at any age.

Computation of Net Single Premium for Endowment Insurance.—In order to calculate the net single premium for the endowment policy, two factors must be considered: (1) payment of the claims at any time that death occurs; (2) payment to insured if he is living at the end of the insured period.

Therefore, the following must be considered in order to compute the net single premium endowment policy: (1) the cost of paying death claims; (2) the cost of paying the principal sum to the insured, if he is alive, at the end of the period.

Net Annual Premiums.—As is well known, the usual custom is not to pay the premiums in one sum but rather to pay these premiums annually. For example, when an insured pays his premium annually, under a term policy, he usually pays an equal sum of money over equal periods of time and the principal is payable in case of death. To calculate the net annual premium, assume that a man aged 35 desires a five-year term policy. The following death payments will be made:

Age 35.....	\$732,000
36.....	737,000
37.....	742,000
38.....	749,000
39.....	756,000

Regardless of whether the insured pays his premium in one lump sum or annually, the insurance company must receive in contributions an amount that will pay all future death claims.

Assume that an insured, aged 35, pays a premium of \$1.00 annually instead of paying his premium in one lump sum. Also assume that the interest rate is 3% and the insured desires

such an amount of insurance that can be purchased for a \$1.00 annual premium. The premiums paid to the insurance company over five years would be as follows:

Age	Number Paying	Amount Paid
35.....	81,822	\$81,822
36.....	81,090	81,090
37.....	80,353	80,353
38.....	79,611	79,611
39.....	78,862	78,862

The value of all these payments to the life insurance company, if they were contributed at the beginning of age 35 instead of annually, assuming that the money is worth 3%, would be:

81,822 × \$1.000000 =	\$ 81,822.00
81,090 × .970874 =	78,728.17
80,353 × .942596 =	75,740.42
79,611 × .915142 =	72,855.37
78,862 × .888487 =	70,067.86
	<hr/>
	\$379,213.82

If this amount were divided among the 81,822 living at age 35, the amount contributed by each would be $\$379,213.82 \div 81,822 = \4.635 . That is, instead of paying \$1.00 annually to meet the mortality cost for a certain amount of insurance for five years, the policyholder could contribute \$4.635 at age 35 in one premium, and obtain the same amount of insurance. Since a net single premium of \$4.635 is equivalent to an annual contribution of \$1.00 paid for five years, a net single premium of \$41.578 (which, incidentally, is the net cost of a five-year term policy at age 35 for \$1,000) has for its equivalent an annual net premium found as follows: $\$41.578 \div 4.635 = \8.971 .

The net premium paid annually in place of a net single premium is called the net level premium.

Loading for Expenses.—Up to this point, the determination of the cost of mortality only has been considered. In addition to this cost, the element of expense in conducting the business must also be considered. Important factors considered in the expense of conducting the business are as follows:

1. Commissions, that is, the amount paid to agents who write the business.
2. Medical examination and inspection report.
3. Administration, that is, the cost of conducting the home office and branch office.
4. Investment expenses.

First Year's Reserve.—A very difficult problem that some life insurance companies have had to consider is how to provide themselves with sufficient money to meet the expenses and reserves required for the first year of a policy written on the annual premium plan. This problem does not concern the company with sufficient accumulated surplus. The principal reason for the difficulty is that commissions and the other acquisition expenses may amount to 80% of the first year's premium. There is not sufficient balance to set up an adequate reserve. Theoretically, the company is in difficulty if a surplus has not been previously accumulated. To avoid this difficulty the insurance companies have been permitted by law to introduce the following plans to meet the problem of the first year's reserves: full preliminary term, modified preliminary term, and select and ultimate plan.

Full Preliminary Term.—Under this method every insurance policy is considered in effect to be two insurance policies: a term policy for one year at the age of the insured, and then a regular insurance policy, assuming that the insured is one year older. No reserve is required at the end of the first year of the policy on the one-year term policy as the policy has theoretically expired. Under this method the insurance company need not, therefore, provide for any reserve whatsoever at the end of the first year of the policy. The first year premium can be used for mortality cost for a one-year term policy and the balance can be used to pay expenses. Policies with higher premiums at the same age will give the company more money to spend for expenses. A company, therefore, might prefer to issue an endowment policy rather than a whole life policy. This condition might lead to abuse, especially in connection with endowment policies, enabling the companies to spend much

more than is necessary. To avoid this undesirable situation, the second plan is used.

Modified Preliminary Term.—Under this plan the full preliminary term is permitted for policies for which the premium charged is not in excess of the premium charged for a 20-payment life policy.

Select and Ultimate Plan.—Experience indicates that the lives of those who are examined for insurance have shown much better experience than that indicated by the American Experience Table. A special table based upon experience of examined lives has been prepared. It indicates lower mortality for the first five years than those required by the American Experience Table, though after five years the benefits due to medical examination are apparently unimportant. The insurance companies are permitted to set up their reserve on the basis of this table, and the balance of the premium can be used for mortality cost and expense. This plan is known as the select and ultimate method.

Reserves under Life Insurance Policies.—When a man purchases a one-year term policy, a portion of the premium is paid for the cost of mortality and the balance is used for expenses. Theoretically, there are no funds available at the end of the year. On the other hand, when an insured purchases a policy for a longer period, paying the premium annually, the entire premium is not used up in the earlier years for mortality cost and expenses. The annual premium plan enables the insured to pay the same rate throughout the premium-paying period. In the earlier years the premium plus the interest earnings is more than sufficient to meet expenses and the death claims. The excess is used to meet the deficit, which occurs later, between the amount paid by the insurance company for expenses and death claims, and the sum it receives in premiums and interest earnings.

Table 10 illustrates the net amounts collected annually under a \$1,000 five-year term policy, age 35, rate of interest 3%, the death claims paid each year, and the balance remaining at the

end of each year to help pay future death claims. The balance is known as the reserve.

TABLE 10. RESERVE UNDER A FIVE-YEAR TERM POLICY

3%, \$1,000 Insurance. Age 35.

Yrs. Ins.	Number Living	Net Annual Premium	Total Premiums Paid	Reserve	Reserve Plus Premiums
1	81,822	\$8.971	\$734,025.162	\$ -	\$ -
2	81,090	8.971	727,458.39	24,045.91686	751,504.30686
3	80,353	8.971	720,846.763	37,049.43606	757,896.19906
4	79,611	8.971	714,190.281	38,633.08503	752,823.36603
5	78,862	8.971	707,471.002	26,408.06701	733,879.06901

Interest on Reserves and Premiums	Total Fund	Death Claims	Balance
\$22,020.75486	\$756,045.91686	\$732,000	\$24,045.91686
22,545.12920	774,049.43606	737,000	37,049.43606
22,736.88597	780,633.08503	742,000	38,633.08503
22,584.70098	775,408.06701	749,000	26,408.06701
22,016.37207	755,895.44198	756,000	*Less 104.56

* Less because computation not carried out to sufficient decimals.

The amount of reserve depends upon the following factors:

1. TYPE OF POLICY.—The rate of premium varies for the same amount of benefit according to the type of policy, that is, term, endowment, limited payment, or ordinary life policy. The type of policy requiring the largest premium for \$1,000 of insurance at any given age will make available the largest reserve. Table 11 illustrates the reserve for various types of policies.

2. AMOUNT OF INSURANCE.—The premium increases proportionately with the amount of insurance for the same type of policy. The purchase of a policy for \$20,000 costs twenty times that of a \$1,000 policy. In other words, there must be a proportionate increase in reserve to meet the future liability.

TABLE 11. COMPARISON OF TERMINAL RESERVES ON DIFFERENT POLICIES

American Experience. 3%, \$1,000 Insurance. Age 45.

Year of Insurance	Ord. Life (Single Premium)	Ord. Life (Continuous Premiums)	Ord. Life (20 Premiums)	20-Year Endowment Insurance (Continuous Premiums)	20-Year Term (Continuous Premiums)
1	\$ 514.30	\$ 19.61	\$ 27.62	\$ 35.48	\$ 7.08
2	524.23	39.65	56.00	72.05	14.05
3	534.37	60.12	85.17	109.78	20.89
4	544.70	80.98	115.13	148.66	27.51
5	555.22	102.20	145.86	188.73	33.83
10	609.92	212.62	311.52	408.62	57.78
20	723.24	441.35	723.24	1,000.00	00.00
25	776.73	549.34	776.73		
30	824.93	646.62	824.93		
40	909.51	817.34	909.51		
50	970.87	941.21	970.87		
51	1,000.00	1,000.00	1,000.00		

3. LENGTH OF TIME THE POLICY IS IN FORCE.—The reserve must increase according to the length of time the policy is in force. This is illustrated in Table 12.

TABLE 12. TERMINAL RESERVE

American Experience. 3%, \$1,000 Insurance. Age 45.

Year of Insurance	Ord. Life (Continuous Premiums)	Year of Insurance	Ord. Life (Continuous Premiums)
1	\$ 19.61	10	\$ 212.62
2	39.65	20	441.35
3	60.12	30	646.62
4	80.98	40	817.34
5	102.20	50	941.21
		51	1,000.00

4. THE INSURED'S AGE.—The older the policyholder is when he purchases a specific type of policy, the greater is the mortality hazard, and therefore, the higher is the premium charged. This means in turn (with the exception of term insurance) that for an older person there must be a different

reserve accumulated for the same number of years a policy is in force than for a younger person.

5. THE ASSUMED RATE OF INTEREST.—The higher the assumed interest earnings, the lower will the reserve be to meet future death claims. This can be illustrated by Table 13.

TABLE 13. COMPARISON OF TERMINAL RESERVE ON ORDINARY LIFE POLICIES

American Experience, \$1,000. Age 45. At different interest rates.

Year of Insurance	3%	3½%	4%
1	\$ 19.61	\$ 18.38	\$ 17.24
2	39.65	37.23	34.98
3	60.12	56.55	53.22
4	80.98	76.32	71.95
5	102.20	96.48	91.12
10	212.62	202.47	192.85
20	441.35	426.90	412.91
30	646.62	633.22	620.02
40	817.34	808.42	799.49
50	941.21	937.84	934.42
51	1,000.00	1,000.00	1,000.00

Assessment Insurance.—It has been contended that if a large number of individuals were insured, it would not be necessary to provide different rates for the various ages and no attention need be given to rate making. It is claimed that there could be collected annually from each member of the group, no matter what his age, a fixed sum, equal for all, to meet the cost of mortality. Such a method, known as assessment insurance, is utilized by a number of organizations.

The theory of assessment insurance does not seem to work in practice. It assumes a large number of members, whereas the assessment associations always have limited numbers. The result is that as the members grow older the annual cost of insurance does not remain constant but increases. Young members are constantly sought, but young men do not believe that they should be required to pay the cost of mortality of the older members of the organization. The result is that this type

of organization tends to become insolvent after a period of years.

Fraternal Insurance.—The insurance plans of fraternal organizations were also originally based on the assessment plan, and the past history of many fraternal has been difficult. Their method of organization is as follows: Through paid solicitors, and in some cases through voluntary solicitors, lodges are formed. The lodge offers the members social life as well as life insurance. In the past, many of these organizations with rates based on the assessment plan were forced into liquidation. To overcome difficulties the fraternal organizations jointly developed a special actuarial table known as the National Fraternal Congress Table. Some fraternal have adopted this table. Legislation has also been passed requiring fraternal which have not adopted a standard table to improve their reserves until such time as they are actually solvent.

Since the purpose of fraternal life insurance is to take care of dependents, it has been the custom of these organizations to issue only ordinary life insurance contracts. In order to meet the competition of stock and mutual life insurance companies, however, many of them now also issue various other forms of policies.

Savings Bank Insurance.—In view of the fact that many industrial employees also are depositors in savings banks, it has been contended that the savings bank should be permitted to issue life insurance in order to meet the needs of industrial workers. This form of insurance, known as savings bank life insurance, is available in two states, Massachusetts and New York. The first state to introduce this form of insurance was the state of Massachusetts. Insurance in that state is available through the insurance departments of the banks, which issue the principal standard forms of insurance policies and annuities. The policy provisions are similar to those found in the contracts of life insurance companies. However, the non-forfeiture provisions are more liberal, as the cash value of the full reserve is allowed at the end of six months and loans at the end of one year. Under the Massachusetts plan the largest

amount of insurance which can be obtained by one person from any one bank is \$1,000. The maximum annuity available is \$200 per annum. This amount is available in each bank which is permitted to issue savings bank life insurance. It is not necessary for the applicant to go to each bank, as an arrangement can be made whereby any one bank can handle the entire insurance application and distribute the total amount among the different banks.

The New York law is similar to the Massachusetts law, subject to several variations. The differences between these laws are:

1. In New York State the Superintendent of Insurance is charged with a large part of the responsibility in administering the plan, whereas in Massachusetts the plan is controlled by a board of trustees appointed by the governor.
2. The total amount of insurance and the amount of annuity that can be issued by each bank is the same under both laws. However, under the New York law, no savings and insurance bank can issue a policy to any applicant who has already obtained from other savings and insurance banks \$3,000 life insurance, exclusive of dividends and profits.
3. Under the New York law the policy must contain a provision which reads as follows: "The only assets of this bank which are liable for and applicable to payment and satisfaction of the liabilities, obligations and expenses of the insurance department of this bank are the assets of the insurance department of this bank." In Massachusetts there is no such requirement, but the policies contain the following statement: "The assets of the Insurance Department of the Bank and the General Guaranty Fund as provided for by statute are liable for any obligation incurred by the bank on account of this policy."

Before purchasing a savings bank life insurance policy, the prospective policyholder should consider the need for independent advice concerning the policy form and provisions. The cost of such advice should be added to the premium charged by the savings bank. In addition, independent advice may be necessary during the policy period in order to solve problems arising from changes in the personal and financial condition of the policyholder.

CHAPTER 4

FIRE INSURANCE

Origin of the Standard Policy.—The annual fire loss in the United States is a stupendous sum. In view of these large losses it is not surprising that the premiums paid for fire insurance amount to many millions of dollars annually.

Formerly, each insurance company issued its own policy form, and therefore the different companies had different provisions in their policies. The variations in policy provisions caused many losses to be referred to court decision, and in each case an interpretation of the policy was necessary to determine whether the loss was included under that particular contract. This condition produced dissatisfaction. Finally the various legislatures began to take an interest in the provisions of the fire insurance policy. Legislation was enacted requiring certain provisions to be found in all fire insurance policies. The policy based upon these provisions is known as the standard fire insurance policy. This policy with modifications is used practically throughout the United States at the present time. The various provisions of the standard fire insurance policy have been determined by judicial decision and the policy itself is seldom modified. For the purpose of this chapter, references will be made to the present New York Standard form which has been in use since January, 1918. Forms used in some of the other states do not have exactly the same provisions as the New York standard form. An analysis of the New York State standard fire insurance policy may be based upon the following topics:

1. The insured.
2. Description of the property covered.
3. Risk assumed by the insurance company.
4. Procedure in connection with the adjustment of losses.

5. Contribution among the various insurance companies covering the same property.
6. Basis of valuation of losses.
7. Waiver.
8. Cancellation of the fire insurance policy.
9. Mortgage interests.

The Insured.—Under the policy the insurance company assumes liability to a specified individual, partnership, or corporation. If the insured is an individual, the policy is not terminated by the death of the insured. The coverage is continued for the legal representatives of the insured.

An insured may have guests at his home or employ servants. If the property of the guests and servants is destroyed, the company would not be liable for their property. Coverage may be granted by endorsement by including household guests (excluding roomers and boarders) and servants as insured in the policy.

A merchant may hold property in trust or consignment, or be legally liable for the stock that he does not own. Coverage is granted for property owned by the insured. In addition, by endorsement the policy can cover his interest in and legal liability for the property held in trust, or on commission, or on joint account with others, or on consignment, or for repairs, or in storage, or otherwise sold but not delivered or removed.

Warehousemen who accept goods for storage from others may obtain a policy covering "as interests may appear." This provision protects the owners of goods stored in the warehouse even though the names are not mentioned in the policy.

Description of the Property.—The policy requires that the property and the place where it is located should be clearly described. In other words, the policy is limited to coverage at a specified place. The reason for this provision is that the rate charged depends upon the location as well as on the nature of the property.

The statement that the property is insured only at a specific place permits of one exception, however. If a fire necessitates

the removal of property, protection continues at a proper new location for five days after removal of the property.

Certain forms of property are not covered by the insurance policy, such as accounts, bills currency, deeds, evidences of debt, money, notes, and securities. The main reason for the exclusion is the difficulty in valuing such property and in proving the loss. In addition, there is no coverage for bullion, manuscripts, mechanical drawings, dies, or patterns unless specifically endorsed on the policy.

Three common forms used to describe property are known as: (1) the household furniture form, (2) the building form, and (3) the stock and fixture form.

HOUSEHOLD FURNITURE FORM.—Property that may be covered by the household form is the personal property whether owned or purchased on any installment or credit plan by the insured or any member of the insured's family, household guests (excluding boarders and roomers), or servants, or by others to whom the insured may be liable; and on improvements or betterments on that portion of the building occupied by the insured for dwelling purposes while contained in or attached to the building, additions, extensions, vaults, and yards at the specific location.

BUILDING FORM.—Coverage under the building form includes building, additions, and extensions attached thereto, vaults, boilers, engines, machinery, apparatus and permanent fixtures, sidewalks, fences and yard fixtures, and signs owned by the insured attached to the specific building.

The form may exclude coverage for brick, stone, or concrete foundations, piers, or other supports which are below the under surface of the lowest basement floor or, where there is no basement, which are below the surface of the ground.

STOCK AND FIXTURES FORM.—The coverage under the stock and fixture form applies as follows:

1. The stock and merchandise, including supplies, ingredients therefor, and packages and packing materials.
2. Furniture, fixtures, machinery, equipment, tools, office supplies, bullion, manuscripts, mechanical drawings,

dies, patterns, and all other personal property not described by the first provision.

3. Improvements and betterments to the building.

These articles are covered by the policy while contained in or attached to the building, additions, extensions, yards, and vaults situated at a specific location.

CHATTEL MORTGAGES.—From the underwriting point of view, an insured who owns personal property which is not encumbered with a chattel mortgage is generally regarded as a better risk than one who owns property which is subject to a chattel mortgage. The policy therefore provides that the company is not liable for any damage to personal property encumbered by a chattel mortgage. The company is liable, however, for loss or damage to any other property.

PERIOD OF COVERAGE.—Liability is assumed from noon of the day on which the policy is to become effective and expires at noon on the date specified in the policy. In order to avoid any misunderstanding concerning the meaning of the word noon, the policy defines the word. The policy provides that the word “noon” means noon at standard time at the place where the loss or damage occurs.

Risk Assumed by the Insurance Company.—The insurance company agrees to pay for any direct loss and damage by fire. If, as a result of the fire, certain property is damaged by smoke or by water or by any other agent incidental to the fire, such loss will also be paid.

There are, however, certain limitations in connection with the obligation assumed by the insurance company to pay for the fire loss. These are: (1) change in conditions; (2) hazards not covered.

CHANGE IN CONDITIONS.—The policy is written on the assumption that normal conditions will surround the property at the time of the fire, these conditions being known to the insurance company. The policy contract, therefore, provides that any of the following changes in conditions will make the policy void and of no effect during the existence of the changed con-

ditions, unless permission for such change is endorsed on the policy :

1. *Increase in Hazards.* If the insured, by changing the physical conditions, should increase the hazard assumed by the insurance company, it may fairly be stated that the insured has violated his original contract and that the insurance company should not be held liable.

2. *Other Insurance without the Consent of the Insurance Company.* Suppose that the insurance company has issued a policy for a certain amount upon a property, and that the insured subsequently obtains additional insurance on the same property from other companies, the property may then be covered for more than its value. If the property is overinsured, there may be a serious moral hazard. To avoid this hazard, the policy will be voided if other insurance is carried without the consent of the insurance carrier.

3. *Special Conditions.* The presence of any of the following conditions increases the fire hazard beyond the normal : vacancy or unoccupancy beyond 10 consecutive days ; operations of a manufacturing establishment between 10 P.M. and 5 A.M. or discontinuance for more than 10 consecutive days ; alterations and repairs of premises lasting longer than 15 days.

If the owner is absent from the premises for long periods of time, there is danger of fire from malicious mischief. If operations are carried on at unusual hours, it is much more difficult to cope with a fire than at the usual hours. If alteration repairs are carried on, access to the building is very inconvenient and the premises are littered with rubbish ; thus there is greater chance of fire.

4. *Absence of Complete Ownership.* The basic assumption made in fire insurance is that the insured has complete title to his property. The insurance company is not liable when the insured does not possess unconditional and sole ownership of the property, or, a building being insured, if it stands on ground not owned by the insured in fee simple, or if foreclosure proceedings have been commenced by reason of any mortgage with knowledge of the insured.

5. *Assignment before Loss.* The policy provides that assignment cannot be made before a loss occurs. The reason for this is that the insurance is given to cover property owned by a particular individual. In fact, a primary consideration upon the issuance of a fire insurance policy is that status of the owner. Therefore, if the policy could be assigned before the occurrence of a loss, insurance might be granted to an individual whom there was no intention to protect. The policy itself, however, may be pledged by the insured as collateral for a loan upon the property. There is no prohibition against this. It will be noted, also, that there is no prohibition against assignment after the loss occurs. The company is then under obligation to pay; therefore, after a loss occurs, the insured may assign his right against the company.

6. *Fraud or Misrepresentation.* The insurance company is not liable: (a) If the insured has concealed or misrepresented in writing or otherwise any material fact or circumstance concerning the insurance or the subject thereof. (b) In case of any material fraud or false swearing by the insured, touching on any matter relating to the insurance or the subject thereof, whether before or after the loss.

HAZARDS NOT COVERED.—Losses due to certain circumstances, are not covered.

1. *Invasion, Insurrection, Riot, Civil War or Commotion, or Military or Usurped Power, or by Order of any Civil Authority.* If a fire occurs as a direct or indirect result of invasion, or if the property is destroyed by the act of civil authority to prevent fires from spreading, such risks cannot be assumed to be normal and are excluded by the policy.

2. *Theft.* The policy provides that the insurance company shall be liable only for losses directly due to fire. If theft occurs as a result of fire, the company is not liable for the property stolen.

3. *Loss Due Solely to Explosion or Lightning.* These two casualties are not considered to be fires. However, if a fire ensues after the explosion or the lightning, the insurance company is liable for the losses caused by the fire.

4. *Generation of Illuminating Gas, Presence of Explosives.* These hazards are not considered normal to the average risk. The policy provides, therefore, that there is no liability for loss due to fire while illuminating gas or vapor is generated on the premises, or while there are on the premises of the insured, articles such as fireworks, gasoline, greek fire, phosphorous, explosives, benzine naphtha, or any other petroleum product of greater inflammability than kerosene oil, gun powder exceeding 25 pounds, or kerosene oil exceeding 5 barrels.

5. *Fall of Building or Part of Building.* The policy provides that if a building or a material part of a building falls except as a result of fire the insurance ceases on the building and its contents.

6. *Neglect of Insured.* The company is not liable for loss due to neglect of the insured to use all reasonable means to save and preserve the property at and after a fire or when the property is endangered by fire in neighboring premises.

Procedure in Connection with the Adjustment of Losses.—If a loss occurs upon the insured's premises, the policy does not permit him to abandon his property. He must use adequate means to protect the property properly against further loss. As soon as a loss occurs, the insured must perform the following duties:

1. Notify the insurance company immediately in writing.
2. Protect the property from further damage.
3. Separate the damaged personal property from the personal property that has not been damaged.
4. Prepare a detailed inventory listing the property destroyed, property damaged, and the quantity, cost, and amount claimed.
5. Furnish the insurance company with a proof of loss within 60 days after loss. This proof of loss contains the following essential information based on knowledge and belief of the insured:
 - (a) Time and origin of fire.
 - (b) Interest of the insured in the property, as well as the interest of anyone else in connection with the property.

- (c) The cash value of each item in the inventory and the amount of loss or damage claimed.
- (d) Encumbrances on the property.
- (e) Any other insurance carried on the property.
- (f) Any change in title since the policy was issued.

The policy also provides for :

1. EXAMINATION BY THE INSURANCE COMPANY.—After a loss has occurred, the insured, under his policy, must exhibit the property to a representative of the insurance company, upon demand. In addition, if the insurance company so desires, the policyholder must submit to examination under oath and produce all books of account, bills, and invoices, or certified copies if originals are lost. If required, the insured must produce verified plans and specifications of any buildings, fixtures, or machinery destroyed or damaged, for which the company is liable.

2. APPRAISAL.—When a loss occurs, the insurance company sends an adjuster to determine the amount of the loss. The value of the loss in accordance with the terms of the policy is the cash value ascertained with proper deductions for depreciation at the time of the loss. If the insurance company and the insured cannot agree on the amount of loss, the policy provides for appointment of one appraiser by the insured and another by the insurance company. The appraisers should be competent and disinterested parties. At the time that the two appraisers are chosen, both appraisers must appoint an umpire. If the two appraisers cannot agree upon an umpire after a stipulated number of days, the insured or the company may request that an umpire be selected by a judge of a court of record in the state in which the property is located. If the appraisers cannot agree upon the value of the loss, the duty of the umpire is to determine the value and his decision is final.

3. PAYMENT OF CLAIM.—If there is an agreed proof of loss, and the valuation of the loss has been agreed on, the insurance company is required to pay within 60 days after the agreement has been reached. After a loss occurs the company's liability is reduced. For example, if the policy was written for \$10,000

and a \$1,000 loss occurred, the company's liability for a subsequent fire is \$9,000. After a loss, however, the company may restore the policy to the original amount on the payment of an additional premium for \$1,000 insurance for the balance of the time which the policy will remain in force.

4. **SUIT.**—If the insurance company denies liability for any loss, the insured can sue within one year after the loss occurs.

Contribution among Companies.—An insured may obtain his insurance from a number of insurance companies. If the insured has more than one policy covering his property, the standard fire insurance policy provides that there shall be contribution among the various insurance carriers in proportion to the amount of the respective policies whether valid or not and whether collectible or not.

There is one difficulty in connection with contribution under fire insurance. An insured may have obtained various policies on his property, and the descriptions of the property, in these policies, may not be worded uniformly. For example, an insured may have covered his property as follows: A Fire Insurance Company, \$250 on piano; B Fire Insurance Company, \$1,250 on household goods. A loss of \$100 occurred to the piano. The following problem arises: What shall be the contribution of each of the insurance companies in connection with its policy? Note that one policy covered the piano specifically; the other covered household goods.

The argument has been advanced that if the insured covered his piano in one insurance company, whereas he covered his furniture in another insurance company, to demand contribution based upon the entire amount of the policy in connection with the policy covering furniture would be unfair in case of loss of the piano. The insurance companies have attempted to make equitable rules to adjust such losses. Many of these rules have arisen as a result of judicial decision. However, the general principle underlying these rules is that, regardless of the method of contribution required from each insurance company, if the insured carries sufficient insurance he should be paid his full loss. For example, one method of settlement is first to re-

quire the company carrying the specific insurance to pay the loss on the property covered specifically, and if there is any unpaid balance, to require the company covering the property generally to pay it. There is but one way to avoid the situation, however, and that is to see that the property is described in exactly the same way in all policies.

Basis of Valuation of Losses.—The policy of fire insurance is strictly one of indemnity. No attempt whatsoever is made to pay the insured for any loss of profits or for any loss that he may have suffered outside of the cash value of the property damaged at the time of the fire. Since the policy provides only for the cash value, the original purchase price of any article is not the determining factor in settling the loss. The only question to be considered refers to the property value less depreciation at the time of loss.

If the insurance company does not wish to pay the cash value, it is entitled to replace the property with like kind and quality within a reasonable time. Notice of intention to replace the goods must be given to the insured within 30 days after receipt of proof of loss. The insurance company rarely exercises that privilege, however, as it is rather difficult to determine the meaning of the words "like kind and quality."

Property may have been destroyed, such as plumbing, which since the installation has become prohibited by ordinance. The insurance company is not required to pay for the costs of a fixture which will meet a new ordinance. All that the policy requires is that the value be determined in accordance with the cash value at time of loss.

There are certain concerns which appraise properties and merchandise and fixtures. Their appraisals are a valuable aid to the insured in determining whether he is carrying sufficient insurance. It may be advisable for the insured to obtain an independent appraisal of his property as it will materially assist him in determining the amount of insurance necessary to protect him adequately in case of a fire loss.

Waiver.—The policy provides that the provisions cannot be waived except by an endorsement. The only ones usually au-

thorized to waive any provisions are the president, vice-president, secretary, or treasurer of the company. In spite of this provision, however, the courts have frequently held that, where the agent knew in advance of the violation of any of the provisions in the policy, it was the knowledge of the insurance company, and the insured was entitled to collect under his policy on the theory of waiver.

Cancellation of the Fire Insurance Policy.—The policy provides that it may be terminated at the request of either the insured or the insurance company. The request by the insurance company may be due to the fact that it no longer desires to cover the type of property described in the policy or that it regards the risk as a physical or moral hazard. If the insurance company desires to cancel the policy, it must give the insured five days' written notice in advance of the cancellation date. The insured is entitled to a pro-rata return of his premium. For example, suppose the insured has a one-year policy upon which he has paid a premium of \$50, and the insurance company desires to cancel the policy after the lapse of 146 days. The insurance company would be required to return to the policyholder $219/365 \times \$50$, or \$30. It is not necessary for the company to pay any unearned premium to the insured when the policy is cancelled by the company. The company must notify the insured, however, that he is entitled to the premium for the balance of the period that the policy would have continued in force and that he can obtain the money on request.

If the insured desires to cancel his policy, he may do so by giving notice to the insurance company. The cancellation date is fixed as the date on which the policy is returned to the company or the agent. The insured is entitled to the unearned premium but from the pro-rata amount a deduction is made. The reason for this charge is that once a policy is issued certain expenses have been incurred, regardless of whether the policy is or is not kept for the entire period. If the insured desires to cancel his policy, he should pay a proportion of these charges. In order to meet this expense, special tables have been prepared which are used to compute the return of unearned premium.

These tables are known as the short-rate cancellation tables and are shown below and on the following page.

To illustrate the use of this table, assume that an insured has a one-year policy which he cancelled at the end of 90 days. The premium that he originally paid was \$30. In accordance with the short rate table for one-year policies, the rate of charge is 40%. Therefore \$12 is retained by the insurance company and the balance of \$18 is returned as an unearned premium.

For a policy written for more than one year but in force for less than one year, the earned premium is determined from the short-rate table for one-year policies by applying the percentage shown in that table to the premium for one year at the annual rate. For term policies in force one year or more, fractions of a month not exceeding 15 days may be disregarded. Fractions exceeding 15 days are counted as a full month.

Mortgagee Interests.—If a loss is payable to a mortgagee, the company must give the mortgagee 10 days' written notice

TABLE 14. SHORT RATE TABLE FOR ONE-YEAR POLICIES

Time, Days	Percentage to be Charged or Retained	Time, Days	Percentage to be Charged or Retained	Time, Days	Percentage to be Charged or Retained
1	2%	19	16%	135	56%
2	4	20	17	150 (5 mos.)	60
3	5	25	19	165	66
4	6	30 (1 mo.)	20	180 (6 mos.)	70
5	7	35	23	195	73
6	8	40	25	210 (7 mos.)	75
7	9	45	27	225	78
8	9	50	28	240 (8 mos.)	80
9	10	55	29	255	83
10	10	60 (2 mos.)	30	270 (9 mos.)	85
11	11	65	33	285	88
12	11	70	36	300 (10 mos.)	90
13	12	75	37	315	93
14	13	80	38	330 (11 mos.)	95
15	13	85	39	345	98
16	14	90 (3 mos.)	40	360 (12 mos.)	100
17	15	105	46		
18	16	120 (4 mos.)	50		

TABLE 15. SHORT RATE TABLE FOR TERM POLICIES
Percentage to be Charged or Retained

Time, Months	2-Year Policy Written at 1¾ Annuals	3-Year Policy Written at 2½ Annuals	4-Year Policy Written at 3¼ Annuals	5-Year Policy Written at 4 Annuals
12	57	40	31	25
13	61	43	33	27
14	64	45	35	28
15	68	48	37	30
16	71	50	38	31
17	75	53	40	33
18	79	55	42	34
19	82	58	44	36
20	86	60	46	38
21	89	63	48	39
22	93	65	50	41
23	96	68	52	42
24	100	70	54	44
25		73	56	45
26		75	58	47
27		78	60	48
28		80	62	50
29		83	63	52
30		85	65	53
31		88	67	55
32		90	69	56
33		93	71	58
34		95	73	59
35		98	75	61
36		100	77	63
37			79	64
38			81	66
39			83	67
40			85	69
41			87	70
42			88	72
43			90	73
44			92	75
45			94	77
46			96	78
47			98	80
48			100	81
49				83
50				84
51				86
52				88
53				89
54				91
55				92
56				94
57				95
58				97
59				98
60				100

of cancellation. If the insured fails to render a proof of loss, the mortgagee must render a proof of loss within 60 days after notice of failure of the insured to render the proof of loss. The mortgagee is then subject to the provisions as to appraisal, time of payment, and of bringing suit. The company must pay the mortgagee although there was a defense against the insured. The company is then subrogated to the extent of payment to the mortgagee's right in the collateral to the mortgage debt. However, the right of subrogation cannot impair the mortgagee's right to sue on the mortgage. If the company desires, it may pay the mortgage debt and demand an assignment of the mortgage.

The Binder.—The issuance of a policy may be delayed, either because the rate has not been determined, or because a special endorsement has to be drawn up, or for many other reasons. In this event it is customary to issue a form called a binder which obligates the insurance company as though the policy had already been issued. The binder is also used in many other branches of insurance.

Provisions of the binder are: (1) the company assumes responsibility until the policy has been issued or until twelve o'clock noon of the next business day after the risk has been declined by notice to the insured or the representative who dealt with the insurance company on his behalf; (2) if the address of the mortgagee or his representative is given, notice must be sent to that address in so far as the mortgagee is concerned; (3) the liability of the company is usually for a specified period, such as 15 days from the date of commencement of liability; (4) if extension of time is endorsed on the binder the company is liable for a similar specified period from the effective date of the extension.

Temporary Automatic Cover.—When an insured acquires property frequently, he may purchase a policy which automatically insures property as acquired. Automatic protection continues for a definite period such as 60 days after acquisition. Coverage terminates after the stated period unless specific insurance has been obtained for the newly acquired property.

A temporary automatic coverage policy is useful for banks and other concerns which desire protections for frequent purchases of property until additional insurance coverage is purchased.

Valued Policy.—In the standard fire insurance policy previously described, losses are determined upon the cash value of the property at the time of the fire. This form of policy is known as a non-valued policy. The laws of several states permit a valued policy determining the value in advance.

The advantages claimed for the valued policies are as follows: (1) The insured knows prior to any loss what he can obtain under his policy. (2) The insured, who may not be as skillful in determining losses as the insurance company, is not called on to help determine losses. (3) The insured does not have to concern himself with the fluctuating values of his property.

Adverse criticisms are: (1) The theory of insurance, that the policy should be one of indemnity and not guarantee, is violated. (2) The insured is practically forced to carry 100% insurance on his property. (3) The moral hazard is increased by eliminating the principle of indemnity.

Special Types of Policies.—Most policies cover property as at a specific place. In many cases the specific insurance policy does not meet the needs of those desiring fire insurance. In order to meet special needs, the following variations of the specific policy are used: the schedule, blanket, floater, and automatic insurance policies.

1. **SCHEDULE.**—An insured may have very many properties. It is possible to obtain a separate policy for each location. If there are many properties to be insured it might be cumbersome to handle numerous policies. Therefore, insurance companies may issue a single policy listing the various properties of the insured. An amount is stated in the policy covering pro-rata on each property as listed.

2. **BLANKET POLICY.**—The insured may have located, near one another, a number of plants in which he keeps goods. He may not desire to insure the goods in each building separately.

To meet this situation, the insurance companies provide a blanket policy covering the goods in the various buildings.

The fire insurance companies usually require a coinsurance clause, and in addition a pro-rata distribution clause. This latter clause provides that the amount of insurance shall attach to the stock in or on each building in that proportion of the amount insured that the value of the property covered by the policy in or on each building shall bear to the value of all the property described in the policy. The meaning of coinsurance will be explained in this chapter.

3. **FLOATER.**—Many individuals and manufacturing concerns have occasion to send their property from one point to another. For example, in the process of manufacturing an article, the raw commodities may be worked up in one factory, from which the partially completed goods must be sent to a second, and finally to a third to be completed. During the process of manufacture, the property is at various points. Under the floater policy the insurance company agrees to cover all property of the insured of certain kind or kinds, within certain geographical limits, with specified limit of amount at any one location.

4. **AUTOMATIC COVERAGE.**—Where changes in stock at old or new locations are frequent and unpredictable, some merchants may obtain an automatic coverage policy. Chain store systems, for example, find it necessary to increase and decrease stocks and to add and abandon locations in their effort to attain maximum net profit. Automatic coverage avoids excessive and inadequate insurance by insuring all property acquired and by adjusting the premium to values reported periodically.

Endorsements and Forms.—The standard fire insurance policy cannot meet all contingencies, and the insured may require a wider coverage than that furnished by it. On the other hand, the insurance company may desire further to limit its liability. To meet these contingencies, a number of clauses and policies have been developed, either increasing or decreasing the liability of the insurance company. Various bureaus located in the United States issue rules regulating endorsements and

forms used in connection with fire insurance. Reference will be made to the important provisions, forms, and clauses as permitted or required by some bureaus. Many of these provisions, forms and endorsements are used in other lines of insurance.

Consideration will be given to the following clauses and forms:

Mortgagee	Watchman and clock
Coinsurance	Extending coverage
Three-fourths value	Transit
Three-fourths loss	Builder's risk
Building ownership waiver	Demolition
Alteration and repairs	Charging for fire protection
Electrical devices	Extended coverage
Electricity forbidding and permitting	Errors and omissions
Lightning	Customs duties
Civil authorities	Consequential loss and damage
Inherent explosion	Unearned premium
Landlord's furnishings	Tuition fee
No-control	Rental
Unoccupied building	Leasehold
Privileges granted	Profits and commissions
Removal of goods	Use and occupancy
Automatic sprinkler	Contingent use and occupancy
Stand pipe equipment	Extra expense
	Multiple location

Mortgagee Clause.—Mention has already been made of mortgagee interests. When a mortgage is employed to finance the purchase of a building, the mortgagor is required to protect the mortgagee against fire loss. The usual practice is for the owner of the building to obtain a policy in his own name, pay the premium, give the policy to the mortgagee, and retain the certificate referring to the policies. The insurance company will add an endorsement on the policy, known as the "mortgagee clause." This clause has the following general features:

1. The loss is payable to the mortgagee to the extent of his interest.
2. The mortgagee is not responsible for the actions of the mortgagor in violation of the policy and not within the knowledge of the mortgagee.

3. If the mortgagor does not pay the premium, the mortgagee may do so.
4. The policy cannot be cancelled unless the mortgagee is given 10 days' notice.

Two forms of the mortgagee clause are available, the full contribution mortgagee clause and non-contribution mortgagee clause. These two forms have similar provisions except that the full contribution mortgagee clause provides that the insurance company is only liable for its proportion of loss with any other insurance carried on the property. Under the non-contribution clause the mortgagee is not concerned with any other insurance carried on the property as contribution is not required with any other insurance on the property.

Coinurance Clause.—One of the problems that the insurance companies have had to meet is that of making the insured purchase an adequate amount of insurance. The problem exists in fire insurance and in many other lines. The insured knows that the great majority of losses are partial losses, and the general tendency is to underinsure. In order to distribute equitably the cost of insurance among individual members of the community and individual owners of property, the fire insurance companies have attached to their policy a clause known as the "Coinurance" clause. According to one clause, rates are made on the assumption that the policyholder will insure 80% of the value of his property. For example, suppose a rate of 30 cents per \$100 of insurance with the 80% clause is quoted on a building valued at \$50,000. This means that the rate has been determined upon the assumption that the insured will cover his building against loss by fire up to 80% of the value of the building or \$40,000. In order to give the insurance company an adequate premium, the insured must pay to the insurance company an amount computed for \$40,000 at 30 cents per \$100, that is \$120. Suppose that this same owner were permitted to purchase only \$20,000 of insurance at the same rate, without the 80% clause. He would then pay a premium of \$60. If others were to follow the same practice, the insurance companies would soon find themselves in a position where they

could not meet their claims, since the rates were based on the assumption that the insured would cover 80% of the value of the building.

In an effort to secure equitable distribution of fire insurance and a fair premium contribution from each property owner, the various forms of coinsurance clauses now in use were developed. Under the coinsurance clause, if the amount of insurance carried is not equal to a certain percentage of the value of the property at the time of loss, the owner of the property becomes a coinsurer with the insurance company. The following examples explain the theory of coinsurance:

TABLE 16. ADJUSTMENT

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Cash Value of Property	Insur- ance Car- ried	Insurance Required to Avoid Coinsurance Under 80% Clause (80% of Col. 1)	Per Cent of Any Claim Company Will Pay (Up to Face of Policy) (2 ÷ 3)	Loss Due to Fire	Insurance Company Will Pay (4 × 5, but not more than 2)	Balance of Loss, Owner Bears Him- self
\$ 50,000	\$10,000	\$40,000	25%	\$ 5,000	\$ 1,250	\$ 3,750
50,000	20,000	40,000	50%	5,000	2,500	2,500
50,000	40,000	40,000	100%	5,000	5,000	none
100,000	20,000	80,000	25%	40,000	10,000	30,000
100,000	20,000	80,000	25%	80,000	20,000	60,000
100,000	20,000	80,000	25%	90,000	20,000	70,000

If a small loss occurs, the expense necessary to prepare an inventory to determine the exact amount of insurance that should have been carried might be unwarranted. If the insured had a stock of \$50,000 and a \$500 loss occurred, it would be unfair to require the insured to prepare an inventory to determine the value of the stock on hand at the time the fire occurred, in order to ascertain whether the insured complied with the coinsurance clause. Therefore, the coinsurance clause may provide that if the loss is less than a stipulated percentage of the insurance, for example 5%, and totals less than a stipulated amount, for example, \$10,000, it is not necessary to prepare a

special inventory or appraisalment of the property which has not been damaged.

Three-fourths Value Clause.—In contrast to the coinsurance clause, the three-fourths value clause provides that recovery by the insured shall in no case exceed 75% of the cash value of the insured property at the time of loss. Partial loss up to the 75% value, however, is paid in full. The purpose of this clause is to decrease the moral hazard.

Three-Fourths Loss Clause.—Under this clause the insurance company is liable only for three-fourths of the value of the loss. The purpose of this clause is also to reduce the moral hazard, as the insured knows in advance that in case of a loss he will have to suffer 25% of the loss himself.

Building Ownership Waiver.—The policy limits liability in connection with ownership of real property. The building ownership waiver clause, however, provides that the policy will not be invalidated under the following circumstances: if the building insured or any part is mortgaged; if foreclosure proceedings commenced or notice of sale be given by virtue of any mortgage or trust deed; if a contract is executed or delivered for the sale of the building; if the interest of the insured is other than unconditional or sole ownership; if the building stands on leased ground or on ground not owned by the insured in fee simple.

Alterations and Repairs.—The standard policy excludes liability if there is any increase in hazard. It may happen that a building may require some alteration and repairs for an extended period. In order to meet this situation the permit for ordinary alteration and repairs endorsement may be attached to the policy. This allows the insured to make ordinary alterations and repairs and covers in addition all materials and supplies used for the alteration and repairs job. The form, however, does not cover reconstruction or enlargement of the property. If the insured finds it necessary to make extraordinary alterations and repairs, an endorsement may be attached to the policy giving this permission. It is similar to the permit for

ordinary alterations and repairs endorsement. There may be a time limit of 60 days on the endorsement, and in that event, if the insured desires additional time, an increased premium may be charged.

Electrical Devices Clause.—This endorsement provides that the company is not liable for electrical injury or disturbance to dynamos or similar appliances unless fire ensues and then the liability is limited to the damage caused by fire.

Electricity Forbidding and Permitting Clause.—Policies may be endorsed prohibiting the use of electricity unless permission is granted by the company. Permission for the use of electricity is granted by the "electricity forbidding and permitting clause" which provides that where the equipment is owned or controlled in whole or in part by the insured, a certificate must be obtained from the bureau of which the insurance company is a member. No alterations are permitted unless notice is given to the bureau.

By another clause, permission is granted to use electricity and to make alterations in and additions to the equipment.

Lightning Clause.—The standard fire insurance policy contains a clause that the company is not liable for loss due to lightning unless fire ensues and then for the fire loss only. The policy may be endorsed to provide coverage against loss due to lightning, which does not cover liability for damage caused by cyclone, tornado, or windstorm. If there is fire insurance coverage by other companies the company is liable pro rata with the other companies for any loss due to lightning whether or not the other insurance covers lightning loss.

Civil Authorities Clause.—The fire insurance policy does not cover loss due to the action of civil authorities. However, by endorsement the policy will cover acts of destruction executed by duly constituted civil authority at the time and only during a conflagration when necessary for the purpose of retarding the conflagration.

Inherent Explosion Clause.—As stated previously, the coverage of the policy excludes loss for explosion in the absence of

fire. The policy, however, may be endorsed to cover explosions resulting from the hazard inherent to the occupancy, as illustrated by chemical risks.

The inherent explosion clause covers loss caused by explosion occurring in the structure covered by the policy or containing the property of the insured or caused by explosion occurring in any part of the plant or the buildings covered by the policy or the structures containing the property covered, provided the explosion results from the hazards inherent in the occupancy or operations as conducted therein and not otherwise.

If there is any other fire insurance or explosion insurance, the company is only liable pro-rata for such other insurance whether such other insurance covers explosion or not.

Liability is excluded for loss or damage resulting from the explosion or rupture of steam boilers and pipes or containers connected therewith, apparatus for heating or lighting buildings or preparing food therein; and similarly, no liability attaches for loss from flywheels, power wheels, and engines or other apparatus for applying or transmitting motive power and machinery connected therewith or operated thereby. However, if fire ensues, the company is liable for loss or damage by fire only.

Landlord's Furnishings Clause.—A landlord is protected by his policy covering the real property for the loss and damage to his building. He may have, in addition, fuel on the premises, carpets, and various other materials stored in the building. Coverage can be obtained by the attachment of the landlord's furnishings clause. The endorsement covers property which belongs to the insured, that is, as building landlord and not as the tenant, and actually used for the maintenance of the building. The property usually covered includes hose and other fire extinguishing apparatus, floor coverings, furnishings of public corridors and stairs, refrigerating equipment, gas and electrical cooking equipment, window shades, awnings, and screens belonging to the building and attached to or stored in the building which are contained and intended for use in the building, employees' uniforms, and janitor's supplies.

If the building is occupied exclusively as a dwelling, storm doors, sashes, awnings, and screens are covered wherever they may be on the premises.

No-Control.—Violation of warranties contained in a fire insurance policy may terminate the company's liability, even though the violation occurred without the knowledge of the insured. If, for example, a tenant keeps explosives on the premises without the knowledge of the insured landlord, the latter may not recover in case of fire. To avoid this situation, a "no-control" clause may be attached to the policy which provides that the policy is not affected by the failure of the insured to comply with any of the conditions attached to the policy in any portion of the premises over which he has no control.

Unoccupied Building.—If a building is insured as unoccupied, an endorsement is attached which provides that the building will remain unoccupied and that when occupied the company will be notified and the rate will then be adjusted.

Privileges Granted.—The policy does not permit manufacturing after 10 P.M., nor the use of certain inflammable liquids and is subject to many other restrictions. This might militate against the operating efficiency of a manufacturing concern. Accordingly, the stock and fixtures form may vary the terms of the policy by granting extended privileges for present and other occupancies not more hazardous and to carry other insurance.

The insured may be permitted to do such work and keep or use materials customary in such occupancies. He may, for example, use benzine or other fluids of similar hazard in the premises occupied by the insured. The use of steam, gas, and kerosene oil is permitted for light, power, heat, and cooking purposes. Kerosene oil stoves, gas stoves, and fuel oil stoves may be used. Likewise, radio receiving apparatus may be installed and operated.

Permission may be allowed to keep the premises unoccupied, to cease operations, or to work at all hours. Furthermore, in connection with property purchased on any installment or credit plan, a chattel mortgage may be placed on the property. The

household form and the building form have many similar privileges.

Removal of Goods.—An insured who may be covered in one location may desire to move his property to another location. Permission for removal of goods to the new location may be obtained by the attachment of a removal permit to the policy. Protection will be provided pro-rata at the new location as well as for the goods which remain at the old location. As soon as removal is completed, coverage is limited to the new location.

Automatic Sprinkler.—Insurance companies allow a reduction in rate if an automatic sprinkler system is used. In such cases the endorsement provides that the insured must use due diligence to maintain the sprinkler systems as far as the system is under the insured's control. No change may be made in the system or in the water supply thereof unless permission is first granted by the bureau of which the insurance company is a member. Permission, however, is granted in case of break, leakage or the opening of sprinkler heads to shut off the water from so much of the sprinkler system as may be imperatively necessary. In addition, the insured must notify the bureau of this fact and must restore the protection as promptly as possible.

Similarly, if the rate is based upon the use of a sprinkler system and an approved centrally supervised sprinkler service, the requirements of the above clause also apply.

Stand Pipe Equipment.—A reduction in rate can be obtained by the installation of an approved stand pipe. An endorsement is attached to the policy which provides that the rate is based on the protection of the premises by stand pipe equipment. If the stand pipe equipment and water supply are under the control of the insured he must use due diligence to maintain them in good working order. No change may be made in the system or water supply for it without the consent of the bureau of which the insurance company is a member.

Watchman and Clock.—The use of a watchman and clock will give the insured a reduction in rate. Under these circumstances, an endorsement is attached to the policy which pro-

vides that the insured, so far as it is within his control, must maintain an approved watchman service with an approved recording system or watch clock at such times as the premises are not in actual operation.

Extending Coverage.—The standard fire insurance policy covers property within the premises. An insured may have occasion to cover goods on sidewalks, platforms, alleys, and other places near the premises. An endorsement may be obtained providing coverage, in the open, that is on sidewalks adjoining the building or on premises within a limited distance from the building described in the policy.

Transit.—The policy may provide that the property is covered on a specific floor in a building. It may happen that it is necessary to temporarily transfer the property to another floor. An endorsement is available which provides protection against loss whether the property is on the floor occupied by the insured or temporarily on lower floors, in transit thereto or therefrom within the same building. When the policy covers household furniture located on certain floors, occupied by the insured, the transit clause provides additional coverage for the property while in transit in other portions of the building. This includes coverage of property when temporarily in servants' rooms, storerooms, laundries, or on other floors of the same building.

Builder's Risk.—A contractor erecting a building faces the problem of providing adequate insurance for the increasing value of the building as it nears completion. This need is met by the builder's risk form. Provisions of the policy are:

1. Coverage is granted on the building in course of construction, including foundations (except as excluded), additions, attachments, and all permanent fixtures.

2. Materials, equipment, supplies and temporary structures of all kinds to be used in the construction of the building are covered and (when not otherwise insured), builder's machinery, tools and equipment. This property is covered while forming a part of or contained in the building or temporary structures, while in cars on switches or side tracks on the premises or within a stipulated number of feet for example, 100

feet of the building, or while on adjacent sidewalks, streets or alleys.

3. The policy covers the property only while the building is in the process of erection and completion and unoccupied. When the building is partly or wholly occupied, the company must be notified and the rate adjusted, except that machinery may be set up and tested if the building is to serve as a manufacturing plant.

4. No coverage is provided for brick, stone, or concrete foundations, piers or other supports which are below the under-surface of the lowest basement floor. If the building has no basement, these items are excluded when below the surface of the ground.

5. The insured must prepare a monthly statement of property values and pay additional premiums required under the policy. Each company is liable for a percentage of total liability as stated in the policy and the company's liability in case of loss or damage to the property cannot exceed the company's percentage of such loss. On the effective date of the policy and monthly thereafter up to and including the expiration date, the insured must prepare a statement showing the value of the property. The additional premium must be paid monthly.

6. The insured will be indemnified for not more than that proportion of any loss which the last reported value of the property bore to the actual value of the property at the time of such last report.

Builder's Risk Completed Value.—The Builder's Risk Form as described previously provided for periodical reports on values. In order to avoid these reports, it is possible to obtain a Builder's Risk Completed Value Form. Under this form the amount of insurance placed at the beginning of construction is equal to the entire completed value of the property. Therefore, the builder has full protection on his property at all times and need not concern himself with insufficient protection due to error in failing to make proper reports.

The form is a 100% coinsurance form. Therefore, if plans

are changed during the course of construction which would involve increased values over the original estimate, provision should be made for increasing the amount of insurance. The provisions of the form are similar to the Reporting Form except for the following:

The amount of insurance stated in the policy is provisional. It is a condition of this form, wherein the rate and premium are based on an average amount of liability during the period of construction, that at any date while this policy is in force, the actual amount of insurance in force is that proportion of the provisional amount of insurance which the actual value of the described property on that date bears to the value at the date completed, but cannot in any case exceed the provisional amount.

In the event of loss, the company is not liable for a greater proportion thereof than the provisional amount of insurance under the policy bears to the value of the property described at date of completion.

Demolition.—As was stated previously, the fire insurance policy does not provide protection where, due to ordinance, after a part of the building has been damaged the authorities do not permit the repair of the building. The building or part damaged by fire may have to be demolished. In order to meet loss due to this contingency the insurance companies attach the demolition insurance clause to their fire insurance policy.

Provisions of the demolition insurance clause are as follows:

1. The insurance company is liable for any loss or damage occasioned by the demolishing of any portion of the building necessitated by the enforcement of any law or ordinance.

2. The company is not liable for:

(a) More than the amount which has been insured under the policy.

(b) Any expense of unexpected greater cost of reconstruction.

(c) More than the actual value prior to the fire of the portion of the building which has been demolished.

- (d) Any greater portion of any loss covered by the policy than the amount of the policy bears to all other insurance on the building whether or not such other insurance contains a similar demolition clause.

Under some forms the company is liable for the expense which it has expended in demolishing the building or part of the building as required by ordinance and also for the expense which it incurred in order to clear the site for rebuilding.

Charging for Fire Protection.—Property may be beyond the fire limits. In case of fire the owner may find it necessary to call the fire department in an adjoining town. It is customary in such an event for the municipality or township to charge the property owner for this service. An endorsement may be added to the policy, providing that the insurance company will assume liability for any fire department charges which the insured may have to pay.

Extended Coverage.—The standard fire insurance policy may be endorsed to cover losses due to: windstorm, cyclone, tornado and hail, explosion, riot, riot attending a strike, aircraft, vehicles and smoke. This extended coverage policy is also known as the supplemental contract.

Windstorm, Cyclone, Tornado and Hail Coverage—Limitations and Exclusions.—The policy does not cover for any loss or damage caused:

1. By snowstorm, blizzard, frost, or cold weather occasioned by tidal wave, high water, overflow, cloudburst, theft.
2. By water, or rain whether driven by wind or not unless the building insured or containing the property insured first sustains an actual damage to the roof or walls by the direct force of the wind. The company is then liable only for such damage to the interior of the building or the insured property in the building as may be caused by water or rain entering the building through openings in the roof or walls, made by the direct action of the wind or by water from sprinkler or other piping broken by such damage to roof or walls.

3. To stacked grain, hay, or straw, windmills, wind pumps or their towers whether they have been blown down or not.
4. To other property, by the blowing down of windmills, wind pumps or their towers unless such other property also sustains other loss or damage caused by wind.
5. Unless liability is assumed by endorsement to any building which is in the process of construction or reconstruction unless the building is entirely enclosed and is under roof with all outside doors and windows permanently in place.
6. Unless liability is assumed by endorsement, to metal smokestacks, awnings, signs, temporary or board roof additions.

Explosion Coverage—Limitations and Exclusions.—Although the policy assumes liability for explosion, there is no waiver of any provision of the policy prohibiting the keeping, using, or allowing on the premises any prohibited articles or materials or keeping, using, or allowing articles or materials in quantities prohibited by the fire insurance policy.

The company is not responsible for loss or damage by explosion originating in steam boilers, pipes, flywheels, engines, or machinery connected therewith and operated thereby.

Riot and Riot Attending a Strike Coverage—Limitations and Exclusions.—The riot coverage includes direct loss or damage from pillage and looting when occurring during and at the immediate place of riot or riot attending a strike. Loss or damage by acts of striking employees of the owner or tenants of the buildings while occupied by the striking employees is also covered. There is no coverage, however, for loss resulting from damage to the property owing to change in temperature or interruption of operations when caused by the riot or strike or occupancy by striking employees, whether or not the policy covers loss due to change in temperature or interruption of operations.

Aircraft and Vehicle Coverage—Limitations and Exclusions.—Loss or damage by aircraft includes direct loss and damage by objects falling therefrom. By the term “vehicle” is meant vehicles running on land or tracks. The company is not liable for loss or damage:

1. By any vehicle which is owned or operated by the insured, tenant, agent, employee or member of the household of either.
2. To vehicles, fences, driveways, sidewalks, or lawns.

Smoke—Limitations and Conditions.—The term “smoke” means smoke due to a sudden, unusual and faulty operation of any stationary steam, hot water, or hot air plant pertaining solely to the service of the building while contained in the premises owned or occupied by the insured. There is no liability for smoke from stoves, fireplaces or industrial apparatus.

Glass Pro-Rata Distribution Clause.—If glass is damaged as a result of a contingency covered by the policy, the company is only liable on plate, stained, leaded or cathedral glass in the building in the proportion that the value of the glass bears to the total value of the building.

The amount of insurance on the glass applies to each plate in the proportion that the value of each plate bears to the total value of all such glass.

War Risk Exclusion.—The company is not liable for damages which are caused directly or indirectly by or incident to war, invasion, or other warlike operations whether war be declared or not.

Vandalism and Malicious Mischief Endorsement.—The supplemental contract has been widened by the Vandalism and Malicious Mischief Endorsement. This endorsement provides that the policy includes direct loss or damage to the insured property from vandalism and malicious mischief. The intent of the endorsement is to cover only direct loss or damage to the property occasioned by wilful or malicious acts causing physical injury to or destruction of the property. The company is not liable for any loss or damage which, either in origin or

extent, is caused directly or indirectly by or incident to war, invasion or other warlike operations (whether war be declared or not), anything elsewhere in this endorsement to the contrary notwithstanding.

The company is not liable for any loss or damage:

1. Resulting from damage to or destruction of the property owing to change in temperature or interruption of operations, when such change in temperature or interruption of operations results from vandalism or malicious mischief.
2. By pillage, looting, theft, burglary or larceny.
3. To glass constituting a part of the building.

The permitted period of vacancy as provided by the fire policy applies to liability under this endorsement except when such permitted period is in excess of 30 days. In that case the company is not liable for loss under the endorsement occurring while the building is vacant beyond a period of 30 days, whether or not such period commenced prior to the inception date of the endorsement.

As stated, the Malicious Mischief endorsement limits the period of vacancy to 30 days. However, this period may be increased by endorsement.

Errors and Omissions.—A banking institution which lends money on real estate mortgages, requires policies to protect these mortgages in case of fire. Contingencies may arise where due to an error or unintentional omission, proper coverage for the amount of a mortgage was not obtained. Mortgages may not be adequately protected as a result of errors and omissions, such as the following:

1. The policy was written for the wrong term.
2. The description of the property was incorrectly stated in the policy.
3. The occupancy of the building was incorrectly described.

In order to avoid loss due to errors or omissions, insurance companies issue a policy covering against loss resulting from these contingencies. The policy is limited to the mortgagee's

interest. Therefore, if title to the property is taken by the lending institution and insurance is not properly written, the insurance company is not responsible. Two error and omission forms are available.

FORM NO. 1 ERRORS AND OMISSIONS.—The policy covers the insured's mortgage interest when the insured's interest in the building property is not covered by specific fire and lightning insurance because of error or omissions in effecting such insurance which result in: (1) no specific insurance on the property, or (2) the specific insurance on the property being invalid, or (3) the specific insurance being insufficient on the property, including loss resulting from contribution under a co-insurance or average clause.

The insured is required to make every reasonable effort to secure and maintain valid specific fire and lightning insurance on each and all property that is covered payable to the insured as mortgagee and in amount not less than the mortgage loans.

Limit of Liability. The company is not liable under the policy for:

1. More than the balance due the insured under the mortgage on the property damaged or destroyed less the remaining value of the property covered by the mortgage; also less the amount due the insured under all other valid insurance on the damaged property, whether by solvent or insolvent insurers; also less any amount recoverable by the insured under any specific insurance on the property not payable to the insured; or
2. In excess of the actual direct loss by fire or lightning to the building or buildings determined in accordance with the printed conditions of the policy; or
3. For a greater proportion of the loss than the amount insured bears to a specified percentage, for example 10%, of the total net amount of all outstanding mortgage loans in which the insured has a mortgage interest, within the territory described by the policy at the time when the loss shall occur; or

4. For more than the proportion of the loss which the policy bears to the whole amount of similar insurance protecting against errors and omissions, whether the similar insurance is valid or not, or collectible or not.

The company is not liable for loss to the insured's mortgage interest resulting from damage to the property involved occurring more than a specified period of time, for example, 10 days, after the insured had knowledge that the required amount of specific insurance on the property was not in effect, if, because of unfavorable conditions affecting the property, the insured has not, or has been unable to secure the required amount of specific insurance.

If the mortgagor neglects to pay the premium due on specific policies covering the properties in which the mortgagee has interest, the mortgagee must pay the premium on demand.

The insurance is excess insurance and is not treated as contributing insurance with specific insurance on the property.

FORM NO. 2 ERRORS AND OMISSIONS.—Form No. 2 is similar to Form No. 1. One of the important differences between the two forms is the measure of the company's liability. Under Form No 1 the company is not liable for more than the balance due on the mortgage on the property damaged or destroyed less the remaining value of the property covered by the mortgage. Under Form No. 2, however, the company's liability cannot exceed the balance due the insured under the mortgage on the property damaged or destroyed.

Customs Duty.—Goods placed in bonded warehouses may be damaged by fire. In addition to the loss which results from damage to merchandise, loss may be incurred by reason of duties paid or that would have to be paid to the government prior to removal of the goods from the warehouse. Protection against the loss of merchandise and customs duties is provided by the customs duties form. This endorsement carries the following provisions relating to customs duties:

1. The form covers customs duties paid or payable to the United States Government on insured merchandise while in customs custody.

2. Liability under this endorsement cannot exceed the same percentage of the duties that the adjusted loss on merchandise constitutes of the sound value of the merchandise.

3. If, in the event of loss, it becomes necessary, in the judgment of the company, to remove any of the merchandise from customs custody, the company agrees to advance for the account of the insured, the proportion of the customs duties payable on the merchandise, that the amount of insurance under the endorsement bears to the total amount of customs duties imposed on the entire insured merchandise. Any deficiency in customs duties payable must be paid by the insured.

4. If the customs duties have not been paid, proper application for abatement must be promptly made in approved form to the Collector of Customs, and the liability of the company cannot exceed its pro-rata share of the difference between the amount actually abated, if less, and the amount ascertained by applying to the customs duties involved the percentage of loss on the merchandise.

5. If prior to liquidation of the application for abatement, the insured desires to remove the damaged merchandise from bonded warehouse or customs custody, the company will advance for the account of the insured not to exceed its pro-rata share of an amount equivalent to such percentage of the customs duties imposed thereon as equals the percentage of loss on merchandise.

6. The insured must, upon payment of the loss of customs duties or advancement of customs duties, maintain his claim against the United States Government for refund or abatement to the extent of the company's interest therein, and must constitute the company or its nominated representative his attorney to prosecute such claims and collect any awards.

7. Any excess of advances provided for over the amount of loss must be refunded by the insured at the time the loss on the merchandise is paid.

Consequential Losses.—The liability of the insurance company under the fire policy is limited to damage to property, but there may be many other losses which will occur as a result of

fire. For example, profits may be lost on goods that have been manufactured or may be lost due to the fact that the building cannot be used. Expenses will have to be continued in manufacturing plants and profits may also be lost. Losses due to these contingencies may be insured under various forms such as: (1) Consequential loss and damage, (2) Unearned premium, (3) Tuition fees, (4) Rental, (5) Leasehold, (6) Profits and commissions, (7) Use and occupancy.

Consequential Loss and Damage.—As was stated previously, the fire insurance policy does not cover any loss which is not directly due to a fire. There are some concerns, however, whose merchandise may be indirectly affected by fire. Protections against consequential loss can be obtained by endorsement of the standard fire insurance policy.

The following types of insured, for example, may take advantage of the protection afforded by an endorsement against consequential loss and damage:

1. Manufacturers of garments, such as clothing, who send various parts of the suit outside of their premises for manufacturing. A coat, for example, may be manufactured on the owner's premises, whereas the vest and pants may be manufactured by contractors at different locations. Should the premises of the contractor where the vest is being manufactured be damaged by fire, destroying or damaging the vest, the remainder of the garments may be decreased in value.
2. Merchants whose stocks are subject to damage as a result of change in temperature.

GARMENT MANUFACTURING ENDORSEMENT.—If the policy covers clothing in process of manufacture an endorsement may be attached which provides that the company is liable for the reduction in value of the remaining parts of clothing or suits.

TEMPERATURE ENDORSEMENT.—Merchandise in packing houses and other warehouses artificially cooled by apparatus situated outside the building may be subject to loss resulting from temperature changes caused by interruption of the refrigeration process or destruction of the refrigeration appara-

tus by lightning or fire. The fire policy usually contains an exemption endorsement freeing the company from these consequential damages. An endorsement may be attached whereby the insurance company will assume liability for loss or damage to contents by reason of temperature changes resulting from the total or partial destruction or disability of the cooling apparatus, connections, or supply pipes caused by fire either inside or outside of the building in which the property is located.

Loss occurring due to fire when cooling apparatus is located inside the premises containing the merchandise is regarded as a direct, not consequential, loss and can therefore be covered without any specific statement to that effect.

Unearned Premium.—When a fire loss occurs during the period of insurance an extra premium must be paid on the amount of the loss payment in order to restore the policy to its original amount. An unearned premium endorsement will be attached to the policy which provides that on payment of a small additional charge, the insured can protect himself against payment of additional premium for the period of time that the policy would ordinarily continue in the absence of fire.

Tuition Fees.—Many schools depend in part upon the tuition fees received from students. When fire occurs, the institution suffers a loss of funds in the form of returned tuition. Should the fire occur during the summer it may seriously affect the entire income during the ensuing school year. Protection against this loss may be obtained by the tuition fee form. Provisions of the form are:

1. The coverage is granted for the total income received from tuition and other income from students, less any expense that may not be continued after the fire.

2. The company is liable for the actual loss of tuition fees commencing with the time of fire and ending on the day preceding the beginning of a first school year following the date that the destroyed or damaged buildings and the contents may with due diligence and dispatch be rebuilt, restored, or repaired.

3. If the agreed time to make the property available for use ends on a date within 30 days immediately preceding the begin-

ning of a school year, the period of liability is extended to end on the day preceding the beginning of the second school year following the date that the property could have been restored to use. The words "beginning of a school year" mean the opening date of the school in the fall as prescribed or as would be prescribed in the school catalogue.

4. To reduce the loss, the policyholder is required to use other available property in place of that damaged or destroyed. If the insured makes expenditures to reduce the loss, the insurance company's liability for the extra expense is limited to the amount by which the loss under the policy has been reduced.

Rental Insurance.—An owner of a building may suffer loss to his property due to damage by fire. Protection is provided against this contingency by the standard fire insurance policy. However, he may also suffer a rent loss because the building can not be used by a tenant. If the building is occupied by the owner personally, he may suffer a loss in rental value. Rental value may be said to be the value to the owner of the building that he is occupying. The various forms of rent and rental value insurance provide for protection against loss of rent through fire, after deduction of charges and expenses that do not necessarily continue. Two forms that are used are: (1) The occupied or rented portions only form which provides protection for the portion of the building rented at the time of the fire. (2) The rented or vacant form which provides protection to the owner without considering whether the building or any portion of the building was rented or untenanted at the date of the fire.

Two methods are used to determine the amount of insurance. Under one method, the amount of insurance that must be purchased is determined by the length of time required to rebuild the property if it were totally destroyed. The company is not liable for a greater proportion of any loss that may occur than the sum insured bears to the rental value of the whole of the premises for the time that would with reasonable diligence and dispatch be required to rebuild and restore the same to a tenant-able condition if totally destroyed.

Under the second method, rental insurance is granted for a definite period of time, such as three years. If this method is used for the rental form, occupied or rental portions only, the company is not liable for a greater proportion of any loss that may occur than the sum insured bears to the rental value of the whole of the occupied or rented portions of the premises per annum. For the rented or vacant form the company is not liable for a greater portion of any loss that may occur than the sum insured bears to the rental value of the premises.

Rental insurance may be obtained for seasonal risks in several forms. Under one form, the company's liability is limited by the time which is required to make the building tenantable again. If, for example, the season were two months from July 1 to September 1, and fire occurred on June 10 requiring repairs completed August 1, the company would be liable for 50% of the amount of the policy, i.e., from July 1 to August 1.

A building used for seasonal occupancy may not be rented at all if not available at the beginning of the season. Another form, therefore, protects against loss of rents on seasonal property which has been leased. Under this form, the company's liability is measured by the difference between the amount of the lease and any amount received during the season. It may be noted that the first form covers the property whether rented or vacant, whereas the second form only covers the property under actual lease.

Leasehold Insurance.—A lessee may have contracted for the rental of a building at a very favorable price. For example, he may have negotiated a 10-year lease at \$150 per month with a current rental value of \$250 per month. Many leases contain a clause called the fire clause which provides that under certain conditions if fire destroys a portion of the building the lease is terminated. The lessee can obtain protection against this contingency as well as other contingencies causing loss due to fire by leasehold insurance. Important provisions of the leasehold policy are:

1. Where premises are occupied by the insured, the company is liable for the difference between the rental value of the

premises at the time of the fire and the actual rental that would have been paid by the insured during the unexpired term of his lease.

2. Where the premises are sublet the company is liable for the difference between the total rent as fixed by the sublease in force at the time of the fire and the sum of the total rent to be paid by the insured for the premises sublet and any maintenance and operating charges of the insured, for the unexpired term of the insured's lease.

3. The policy must contain a description of the fire clause, stating the conditions under which the lease will be terminated due to fire.

4. Since the form provides that the loss is paid in one sum and not each month for the balance of the lease, the liability for the remainder of the lease will usually be paid less a specified discount such as 4% compounded semi-annually except for short periods of time such as four months when no discount is allowed.

5. If the lessee is permitted to remain in possession at will subsequent to the cancellation of the lease, the company is nevertheless liable for the actual loss sustained by the insured, subject to the limit of liability stated in the policy.

6. If damage to premises does not cause cancellation of the lease but renders the premises untenable, the company is liable for its pro-rata proportion of the actual loss sustained by the insured to his interest as lessee, for the time, but not beyond the expiration of the lease, as may be necessary with the exercise of reasonable diligence in order to restore the premises.

7. The amount of the policy is automatically reduced throughout its term in the proportion that the interest of the insured as lessee decreases.

8. Since the liability of the company is reduced as the expiration date of the lease becomes nearer the insured may desire to cancel his policy and have it re-written for a smaller amount of liability. To avoid this contingency, the policy prohibits cancellation for the purpose of re-writing the policy for a term extending beyond the expiration date or for a lesser amount

except when there has been a reduction in the monthly interest of the insured as a lessee.

9. The company is not liable under the following conditions :

- (a) If the lease is altered or modified in any of its conditions that affect the company's liability.
- (b) By reason of any omission of the insured.
- (c) If the insured exercises his option to cancel the lease.
- (d) If some regulation prohibits the reconstruction of the building.
- (e) By suspension or cancellation of any licenses.

Profits and Commissions.—The standard fire insurance policy covers loss of merchandise resulting from fire, but not the loss of profits which could have been made had the fire not occurred. If the cost of the goods was \$100 and it could have been sold for \$120 the company's liability under the fire policy is limited to the replacement value, that is \$100. Similarly, an individual may have received goods as consignee at an invoice price of \$150 for which he would have received ten per cent commission, that is \$15, when the goods were sold. In case of fire the consignee could not collect his commission, since the standard fire insurance policy does not provide for the payment of loss of commissions due to fire. To meet these contingencies, the insurance companies issue a profits and commissions form which covers the loss of profits or commissions which would have been made if finished stock had not been damaged by fire. It must be noted that the form essentially covers finished stock of merchandise and not goods in the process of being manufactured.

Profits and commissions insurance is available in two forms which will be separately analyzed.

Provisions of Form 1 are :

1. Coverage is provided for loss of profits or commissions on stock whether sold or unsold while contained in the insured premises.

2. Profit is defined to be the excess of the price which would have been receivable on the date of loss from the sale of the stock over the cost of replacing the stock, with like kind and

quality at the time of loss. Commission is the amount which would normally be earned by the insured on the date of loss from the sale of stock. Expenses which could be avoided or discontinued after the stock was damaged or destroyed are not part of the loss. Expenses which are necessarily incurred for the purpose of reducing any loss are considered as a part of the loss, but not in excess of the amount by which the loss covered has been reduced.

3. The term stock means any stock (a) which is ready for packing, shipment or sale; or (b) which is in the hands of others than the insured for processing or finishing; or (c) which is on consignment.

4. Various methods are used to determine the loss. For example, the amount of loss is determined by the lowest amount of the following limits: (a) "The percentage of loss or damage on stock," that is the percentage of damage as shown by the final outcome of the adjustment of the damage on stock by the company which insured the stock, including the result of any salvage handling operations whether completed before or after the adjustment. If no insurance was carried on the stock, then the percentage of loss on damage of stock must be determined by the insurance company and the insured. (b) The actual loss of profits and commissions sustained by the insured. (c) The actual loss of profits and commissions resulting from a loss on sales or a reduction in the amount of the profits and commissions derived from the sales.

5. In order to reduce the loss, the insured must, as soon as practicable, make use of the stock and acquire and make use of other stock and other premises. Any reduction in loss resulting must be considered in determining the amount of the liability of the insurance company.

The principal provisions of Form No. 2 are similar to Form No. 1. Under the second form recovery is not limited to the percentage of damage suffered on the merchandise. The loss can be determined by the lowest amount provided by the following methods: (1) The actual loss of profits and commissions sustained by the insured on the damaged or destroyed stock. (2) The actual loss of profits and commissions resulting

from a loss of sales or a reduction in the amount of profits and commissions derived from sales.

Use and Occupancy Insurance.—A manufacturer or merchant who suffers a loss due to fire may find that it would take time to restore the plant and obtain raw materials so that he could again commence to manufacture. In spite of the interruption of business many expenses may continue. Some of these expenses are salaries of office force, superintendents, managers, officers, and directors, rent, taxes and interest on bonds. In addition, the manufacturer or merchant may suffer a loss of profit due to his inability to operate the business. To meet this contingency, Use and Occupancy Insurance or Business Interruption Insurance has been developed. To determine the amount of insurance necessary to protect the insured against loss, the following items in connection with the business should be considered:

1. Net profits based on those of the previous years with due consideration for the estimated profits for the ensuing year.
2. All salaries of officers and employees which must of necessity be continued to maintain the organization.
3. Taxes.
4. Rents.
5. Royalties on machinery or processes.
6. Advertising which has been contracted for.
7. Insurance premiums.
8. Interest on bonded indebtedness.
9. Expense of maintenance of plant or building which must be continued during the business interruption.

There are various forms used to meet the needs of manufacturers and merchants. In some jurisdictions, insurance may be obtained in the following forms which for the purpose of identification will be called: (1) manufacturing plants in steady operation with a weekly limitation of liability; (2) mercantile or non-manufacturing risks in steady operation with a weekly limitation of liability; (3) manufacturing plants hav-

ing seasonal operation or fluctuating earnings with a weekly limitation of liability; (4) mercantile or non-manufacturing risks having seasonal operations or fluctuating earnings with a weekly limitation of liability; (5) manufacturing risks subject to coinsurance; (6) non-manufacturing risks subject to coinsurance; (7) non-manufacturing risks subject to coinsurance—gross earnings.

FORM No. 1.—Manufacturing plants in steady operation with a weekly limitation of liability may obtain Form No. 1. Provisions of this form are:

1. If the building, machinery, or raw stock is damaged by fire, the company is liable for a loss covering net profits of the business which are thereby prevented from being earned; fixed charges and expenses which must necessarily continue to the extent that such fixed charges and expenses would have been earned had no fire occurred; and expenses incurred to reduce the loss.

2. The company is liable for a definite length of time from the date of the fire occurring within the insurance period and not limited by the date of expiration of the policy.

3. The liability of the company is limited to the actual loss sustained but not in excess of $1/50$ of the amount of the policy for each business week of suspension. If the business is operated on Sundays and holidays, the liability is limited to $1/52$ of the amount of the policy for each business week of suspension.

4. If the business is partially suspended, the weekly liability is limited to the actual loss sustained. The company's liability, however, cannot exceed the portion of the maximum weekly limit of liability that would have been incurred by total business suspension, which the actual weekly loss sustained during the time of partial suspension bears to the weekly loss which would have been sustained by total suspension of business for the same time. Therefore, assume that (a) the weekly insurance was \$1,000; (b) due to partial suspension the loss was \$600 weekly; (c) if the operations were entirely suspended, the loss would have been \$1,200. The company's liability would be determined as follows: $600/1200 \times \$1,000 = \500 . Due consideration

must be given to the experience of the business before the fire and the probable experience thereafter.

5. Without increasing the total amount of the policy, the company is liable for such additional time, if any, not exceeding 30 consecutive days as may be required with the exercise of due diligence and dispatch to replace or restore any stock in process damaged or destroyed while in the buildings described by the policy or in the opening of the premises described by the policy and to restore the stock in process to the same state of manufacture in which it stood at the time of the fire.

6. If liability for suspension of business due to damage to or the destruction of raw stock is assumed, the liability is limited to that period of time for which the damaged or destroyed raw stock would have made operations possible.

7. Surplus machinery or duplicate parts of such machinery equipment or supplies and surplus of reserve raw stock or stock in process which may be owned, controlled or used by the insured must in the event of loss be used in placing the property in condition for continuing or resuming business.

8. The company is liable for the actual loss sustained as covered by the policy during the period of time not exceeding one week while access to the premises is prohibited by order of civil authority but only when this order is given as a direct result of fire in the vicinity of the premises.

FORM No. 2.—This form has the many provisions similar to Form No. 1 and applies to mercantile or non-manufacturing risks engaged in selling merchandise. The form without increasing the amount of total liability includes additional time, if any, not exceeding 30 consecutive days as may be required with the exercise of due diligence and dispatch to replace any stock damaged or destroyed while in buildings or in the opening of premises covered by the policy or to restore the stock to the same condition in which it stood at the time of the fire.

FORM No. 3.—This form is similar to Form No. 1 except that it recognizes that there may be different limitations of liability during the year. The form, therefore, provides for insertion of a varying limitation of liability. For example, from

January to November, the liability may be \$500 per week and in December \$1,000 per week.

FORM No. 4.—This form is similar to Form No. 3 except that it applies to mercantile or non-manufacturing risks.

FORM No. 5.—This form applies to manufacturing firms subject to coinsurance. Serious objections against the use of the forms discussed are the weekly limitation of liability and the forecasting of profits. It is very possible that the loss cannot be readily determined on a weekly basis. To meet this difficulty, the companies issue coinsurance forms.

Measurement of loss is not based on a weekly limit but upon the actual loss that has been sustained regardless of the number of weeks of suspension. The company is liable for the actual loss sustained for a period which does not exceed the length of time required to place the business in operation.

The liability of the company depends on two items:

1. (a) The net profits which are prevented from being earned;
- (b) charges and other expenses which must necessarily continue during suspension of the business to the extent that such charges and expenses would have been earned had no fire occurred. This item includes expenses of necessary heat, lighting, or power, the cost of which is prevented from being earned during the suspension of business.

2. The insured's entire ordinary payroll for a period of time not in excess of a stipulated number of consecutive days (for example, 90 days) immediately following the fire which may continue during the suspension of business covering only to the extent necessary to resume normal operation of the insured with the same quality of service which existed immediately preceding the fire and which would have been earned had no fire occurred. Coverage for Item 2 is optional with the insured.

The various clauses contained in this form are similar to Form No. 1 except a requirement for coinsurance. In view of the coverage of this form the insured is subject to a coinsurance clause, e.g., either 80% or 100%. The amount of insurance is:

- (a) For Item 1, the sum of the annual net profits and the annual amount of all charges and other expenses whether continuing or not (except the expense of the insured's ordinary payroll and the expense of heat, light, and power) that would have been earned (had no fire occurred) during the twelve months immediately following loss or

damage by fire. (b) Under Item 2 the insured's entire ordinary payroll, excluding only salaries described in Item 1, which would have been earned (had no fire occurred) during the stipulated period of consecutive days immediately following loss or damage by fire.

Under the coinsurance form, the amount of insurance is partly based on all the fixed charges and expenses whether such charges and expenses would or would not continue after a fire. However, under the other forms, the amount of insurance is based on those fixed charges and expenses which would nevertheless continue after a fire.

FORM No. 6.—This form applies to non-manufacturing risks subject to coinsurance. It is similar to Form No. 5.

FORM No. 7.—This form is similar to the other coinsurance forms, as the loss payable is not subject to a weekly limitation. The amount of insurance purchased depends on the gross earnings of the insured, subject to a 50%, 60%, 70%, or 80% coinsurance clause. The policy provides that the measure of recovery in the event of loss is the reduction in "gross earnings" directly resulting from the interruption of business, less charges and expenses which do not necessarily continue during the interruption of business, but not exceeding the actual loss sustained by the insured resulting from such interruption of business. Due consideration is given to the continuation of normal charges and expenses, including payroll, to the extent necessary to resume operations of the insured with the same quality of service which existed immediately preceding the fire.

"Gross earnings" are defined as total net sales, less cost of merchandise sold, plus other earnings derived from operation.

In order to avoid any adverse effect where coinsurance is required an endorsement known as the "Agreed Amount Clause," may be attached providing that, until the expiration date or other date designated in the policy, the coinsurance requirement is met if a specified amount of insurance is carried. After the date mentioned in the agreement, the coinsurance clause attaches to the policy again without modification unless another endorsement is attached. The insured must file with the insurance bureau of which the company is a member a satisfactory statement of the use and occupancy value prior to the specified date mentioned in the endorsement, a new state-

ment determining the value, and all policies must be endorsed for another year with any necessary adjustment.

Business may also be suspended due to the loss of raw stock by fire and some time may be required in order to obtain another supply. The various manufacturing forms are written so that protection is provided against loss due to the suspension of operations for the period such raw stock would have made operation possible. This coverage can be eliminated from the form. In addition loss may have been covered for the time necessary to replace goods damaged which were in the process of manufacture. The company assumes liability by the form for 30 consecutive days. This period can be extended by endorsement. The 30-consecutive day period provided by the mercantile form to replace stock can be extended by endorsement.

Contingent Use and Occupancy.—A manufacturer's plant may be damaged by fire, thus preventing the manufacturer from shipping goods to his customers. The customer as a result may suffer a loss on account of his inability to sell the goods which were not delivered by the manufacturer. Protection against this contingency may be obtained by the purchase of contingent use and occupancy insurance.

Extra Expense Form.—Newspaper publishers, ice manufacturers, milk dealers, and many other types of business may have to use other facilities at extra cost in order to continue operations when their premises are damaged or destroyed by fire. The extra charges and expense form is similar to use and occupancy forms except that liability is limited to the additional expenses of doing business elsewhere incurred as a result of fire.

1. The company is liable for the necessary extra expense incurred by the insured in order to continue as nearly as practical the normal conduct of the insured's business.

2. The company is liable for the extra expense incurred for not exceeding a length of time, technically called the period of restoration, required with the exercise of due diligence and dispatch to repair, rebuild or replace that part of the building or its additions or contents which may be destroyed or damaged.

3. "Extra expense" means the excess, if any, of total cost during the period of restoration chargeable to the conduct of

the insured's business over and above the total cost that would normally have been incurred to conduct the business during the same period had no fire occurred. The cost includes the expense of using other property or facilities of other concerns or other necessary emergency expense.

4. As soon as practicable after any loss, the insured must resume complete or partial business operations of the property covered, and in so far as possible, reduce or dispense with such additional charges and expenses as are being incurred.

5. The insured will not receive compensation nor will the company be liable for extra expenses incurred as the result of:

- (a) The enforcement of any ordinance or law regulating or prohibiting construction or repair of building.
- (b) The lapse or cancellation of any license, lease or written or oral agreement, or for the cost of compiling books of record or other documents.
- (c) Any other contingent or remote loss.

6. The company will not be liable for any direct or indirect property damage loss, or for expenditures incurred in the purchase, construction, repair or replacement of any physical property, except and only to the extent that the company will be liable for expenditures incurred for the purpose of reducing any loss under the policy, not exceeding the amount by which the loss is so reduced.

7. The company will not be liable under the policy for loss of profits or earnings resulting from diminution of business as a result of fire or otherwise.

✓ **Multiple Location Coverage.**—Many concerns having numerous locations, such as chain stores, can obtain a policy for each location. However, this is a cumbersome method when there are many locations in various states. In order to meet this situation an organization of various insurance companies has been formed, known as the Interstate Underwriters Board. This board has prepared certain forms called multiple location forms to cover under one policy merchandise, supplies, furniture and fixtures, and the interest of the insured in improvements and betterments at various locations. Automatic cover-

age is also provided for new locations. However, the forms cannot cover buildings and usually do not cover machinery, except under two forms (numbers 1 and 5) for stores and warehouses as will be explained. The insured must have five or more locations in order to obtain the policy. If the five or more locations are located in one state, a similar form is issued by the organization concerned with rates in the particular state.

Chain enterprises such as amusement cannot obtain multiple location contracts. These concerns may have large amounts of furniture and fixtures and improvements but these items are only covered provided merchandise items are insured.

The three forms available for five or more locations are known as: Form No. 1, Monthly Average Reporting Form; Form No. 2, Weekly Average Reporting Form; and Form No. 5, Non-reporting Coinsurance Floater Form.

FORM NO. 1.—The principal provisions of Form No. 1 are:

1. Property covered includes goods, wares and merchandise, store office and warehouse furniture and fixtures, and machinery incidental to stores and warehouses, the property of the insured held in trust or on consignment or for which the insured may be liable in the event of loss or damage. The policy covers the property in the various buildings or within a definite distance from the property within described geographical limits.

2. The policy excludes liability for motor vehicles and property in transit, at fairs or expositions or in a manufacturing plant owned or controlled by the insured.

3. A limit of liability for each location is declared at the inception of the policy.

4. An additional limit of liability is applied for any location within the same geographical area acquired by the insured after filing the last monthly report.

5. The policy permits specific insurance at any location if protection in excess of the limits of liability of the policy is required or if disclosed by written endorsement on the policy.

6. The premium is adjusted on the basis of a monthly report showing the disclosed values of all locations, which must

be submitted within a specified time, say thirty days, after the end of each month.

7. If the insured has failed to file his report as required, the liability of the company is limited to the locations and amounts included in the last report of values filed prior to the loss.

8. The company's liability at any location is limited to the proportion of the loss as determined from the last reported value at the location where the loss occurred, less specific insurance if any, bears to the actual value at the location at the time the loss occurred less specific insurance if any. For new locations acquired since the last report, the company's liability is limited to the proportion of the loss that the last reported values at all locations less specific insurance, if any, bear to the actual value less specific insurance, if any, at all locations at the time of the last report.

FORM No. 2.—This form is intended for manufacturing concerns engaged in seasonal operations where the nature of the raw stock prevents continuous operations during the year. Provisions of Form No. 2 are similar to those of Form No. 1. Coverage is provided for goods on the premises of any manufacturing plant owned or controlled by the insured. The form does not contain the exclusion found in Form No. 1, providing that property in or on the premises of any manufacturing plant owned or controlled by the insured is not covered. In addition, the premium adjustment clause is based on average of the weekly values during each month. The clause provides that the insured must report not later than a stipulated period after the last day of each month the exact location of all property covered, the average of weekly values of such property during each month, at each location, and the average of any other insurance in force during each month at each location.

FORM No. 5.—Though similar to Form No. 1, Form No. 5 is used by concerns which own stock at various locations where the amount of stock does not fluctuate to any great extent. The premium is computed in advance and therefore, does not vary with audit as in Forms 1 and 2. To influence the insured

to obtain adequate insurance, the policy is written subject to the 90% or 100% coinsurance clause. The policy does not require that the insured notify the company of any changes in locations, provided that the limit of automatic coverage at locations other than those listed in the form is sufficiently high to give the insured the proper protection. Should values shift from one or more locations to a new location and a higher limit be required the insured must notify the company so that the limit may be adjusted accordingly.

FORMS A AND B.—In addition to the three forms issued by the Interstate Underwriters Board to cover five or more locations as just described, two others are available, issued by state rating organizations to cover two or more locations in one state. These two are known as: (1) Form A or Monthly Average—Two or More Locations Reporting Form; and (2) Form B or Weekly Average Reporting Form—Two or More Locations. They resemble, respectively, Forms No. 1 and 2 of the Interstate Underwriters Bureau. However, new locations or changes in limit of liability are added by endorsement.

An endorsement may be attached to Forms No. 1, No. 5 and A providing coverage of the insured's interest in improvements and betterments except to buildings owned by the insured. In case of loss the company agrees to accept the insured as sole and unconditional owner of the improvements and betterments, despite any contract or lease to the contrary.

Fire Prevention and Protection—Governmental Bodies as Agencies in such Protection.—To reduce the tremendous losses suffered on account of fire, there is an increasing agitation for fire prevention. Reduction of fire losses may be accomplished by the following agencies: (1) governmental bodies, (2) the individual, and (3) associations to carry on the fire prevention campaigns.

In the past, governmental bodies, even those of cities and towns, concerned themselves little with the construction of buildings. In this country, moreover, the growth of cities has been so rapid that there has not been much planning in advance concerning the types of construction. Today, however,

many cities, aware of the tremendous fire losses, have attacked the problem of reducing the fire cost by the introduction of a building code.

The building code consists of a series of regulations in accordance with which construction must conform. There is a tendency to introduce into the building code the requirement of steel and brick and tile construction in place of wooden construction. Furthermore, some building codes require that factory buildings should have automatic sprinklers. An automatic sprinkler is a device usually consisting of a tank which supplies water to a system of pipes hung from the ceilings throughout the building. The sprinkler is so constructed that as soon as the heat in any part of the building increases to the predetermined temperature, the sprinkler heads on the pipes open, water shoots out, and succeeds, in the large majority of cases, in limiting the destruction to very small areas. This naturally reduces financial loss through fire to a minimum.

In addition to the building code, states and cities have given consideration to the following factors:

INTRODUCTION OF A HIGH WATER-PRESSURE SYSTEM.—For the high structures to be found in large cities the ordinary method of supplying water to fight fire is inadequate on account of lack of pressure. This difficulty can be overcome by the installation of the high-pressure system.

FIRE DEPARTMENT.—Every town should have a paid fire department, that is, a group of people working for the city who are primarily concerned with the prevention of fire losses.

FIRE MARSHAL.—One of the causes of large fire losses is the act of arson. States that employ a fire marshal have found that such an official can make thorough investigations concerning acts of arson and bring to justice many people who have set fires.

POLICE PROTECTION.—Police may be detailed to patrol districts and to notify the fire department immediately in case of fire.

The Individual and Fire Prevention.—The individual owner can reduce the hazard by recognizing the following facts:

CONSTRUCTION OF THE BUILDING.—If a building is constructed in accordance with modern fire regulations and requirements, the chances of loss through fire are greatly decreased. Combustible interior construction should be discouraged, and the construction of fireproof buildings should be increased.

OCCUPANCY.—The danger from fire depends largely upon the type of occupancy of the building. As may well be imagined, to use a building for the manufacture of explosives is much more dangerous than to use it for the manufacture of textiles.

EXPOSURE.—When an individual uses a building, he must consider not only his own but also the buildings surrounding his, their types and the uses to which they are put; for there is not only the possibility that fire may arise in his own building, but the further possibility that fire may extend to his own on account of the surrounding buildings.

FAULTS OF THE MANAGEMENT.—One of the main causes of fire is untidiness. Buildings which are littered up with rubbish offer fruitful possibilities for fire, either by spontaneous combustion or by the inadvertent dropping of a match. Every owner of a building should see that his premises are kept tidy and that the usual requirements against smoking are strictly enforced.

FIRE APPLIANCES.—To make his building a better risk and decrease the insurance rate, if for no other reason, the owner of a building should introduce every possible device to reduce the fire hazard. Fire pails placed throughout the building furnish one of the best and least expensive forms of fire appliance. Standpipes and hose are another excellent device. The sprinkler system has already been described. It should be installed even when not required by the building code.

Associations to Carry on Fire-Prevention Campaigns.—Many years ago the fire insurance companies realized that their profits depend in part upon the reduction of fire losses, and, therefore, the stock fire insurance companies organized the Na-

tional Board of Fire Underwriters. This organization has for a great many years carried on a campaign for the reduction of fire losses. Some of its important functions are as follows :

1. To plan building codes for cities.
2. To make municipal surveys and advise the city concerning all matters of fire prevention and protection.
3. To carry on campaigns against incendiarism.
4. To introduce the idea of fire prevention in educational institutions and plan for the success of a national Fire Prevention Week.
5. To conduct the Underwriters' Laboratories. These laboratories will test for the manufacturer any commodity made for the prevention of fire or for protection against fire. If the device meets with the standards of the Underwriters' Laboratories, the manufacturer is permitted to place on certain commodities which he manufactures, the seal of the Underwriters' Laboratories which reads, "Underwriters' Laboratories, Inc. Inspected." Many owners of property under construction insist on the use of material with the seal of approval of these laboratories. It connotes the possibility of reduced fire rates. In general, the value of this division of the National Board of Fire Underwriters is extensively recognized.

Reasons for Fire Prevention.—A fire prevention campaign should produce the following results :

SAVE PROPERTY AND THUS SAVE CAPITAL WEALTH.—Although the owner may be reimbursed by the insurance company for his fire loss, there is, nevertheless, an economic loss to society because the wealth has been consumed by fire. All that the fire insurance company can do is to provide the owner with a means whereby the loss can be distributed among the many.

REDUCE THE COST OF INSURANCE.—Since the fire insurance companies compute their rates on the basis of income required for taking care of losses, reduction in the amount of the losses means reduction in the rate of premium. If the losses are reduced, the fire insurance cost to the individual policyholder may also be reduced.

ELIMINATE CARELESSNESS.—The fire prevention campaign brings home to the individual his relationship to society in connection with the fire hazard. Many people who have a fire insurance policy believe that they have no further interest in connection with the protection of their property, since the loss will be paid by the insurance company. The fire prevention campaign should clearly demonstrate the fact that the duty of every owner of property is to so guard his property that loss due to carelessness will be eliminated.

Rate Charge.—An examination of fire insurance policies will indicate that there are a great many variations in the premiums charged. The reasons for this variation can be shown by the following examples:

1. Assume a wooden dwelling in a city with a paid fire department and a wooden dwelling of exactly the same type in a city without a paid fire department. The first runs less risk of loss through fire than the second.

2. Assume two buildings in the same city, a reinforced concrete building and a wooden building. Obviously, the wooden building represents a greater fire hazard than the building of reinforced concrete.

3. Assume a building with a store used for the sale of clothing only, and in the same locality another of the same type of construction with a store used for the manufacture as well as the sale of clothing. The latter building offers a greater fire hazard on account of the danger involved in manufacturing.

4. Assume a factory which is not adjacent to any other buildings, and, in the same city, another similar factory surrounded by other buildings. The latter represents the greater risk because of the exposure hazard or danger from fire in the other buildings.

These illustrations indicate that the rate charges vary with different conditions, important factors being susceptibility and hazards; difference in location; difference in construction of buildings; and difference in exposure.

Rates may be classified as minimum rates and specific rates. A minimum rate is a rate which is applied to an entire group of

risks of the same class, although the hazards may vary somewhat. For example, the usual practice of fire insurance companies is to apply the same rate to one- to three-family dwellings of the same type of construction and in the same locality, without regard to variation in hazards. The reason for this is that the expenditure for determining the difference in hazards would hardly be warranted by the possible variation in rates. A specific rate is a rate promulgated particularly for a certain property or occupancy at a certain location after inspection.

There was at first no satisfactory method by which equitable rates could be made for all types of risks. The premium charged was frequently determined by the individual judgment of the underwriters of various companies and was subject to the factor of competition. This method resulted in severe losses to the insurance companies, since the rates were in many cases not adequate. The great public interest in the subject of fire insurance compelled the various state legislatures to inquire into the condition of the business. As a result of investigation many states passed legislation regulating the rates. The purpose of this legislation was to prevent: (1) unfair discrimination between risks; (2) the charging of unreasonable rates for any risk.

Independently from the activities of the states, the fire insurance companies themselves were considering methods by which fair rates could be made. The problem at first mainly concerned mercantile and manufacturing risks. These presented so many variations in hazard that it was necessary to make specific rates for each risk. For the old guesswork method a system limiting the element of judgment was substituted. This system endeavored to take into account, for each accepted risk, the special hazards involved. At present two systems are in general use: the universal schedule and the analytical schedule.

Universal Schedule for Determining Rate.—For illustration, the universal schedule will be discussed. In order to explain the working of the universal schedule, the method used to determine the rate for a non-fireproof mercantile building will be described, since this involves considerable detail.

The schedule commences with a key rate, that is, the rate

which should be charged for a standard building in the city, prior to considering variations in the individual risk.

After the key rate for a city has been determined, the building to be rated is compared with the standard building upon which the key rate has been predicated. The following important factors are considered in the comparison:

1. Defective and sub-standard construction of the building.
2. Exceptional construction of the building.
3. Work performed and material kept in the building.
4. Fire appliances provided in the building.
5. Nature of property surrounding the building, that is, the exposure.
6. Management of the building.
7. Special considerations.

DEFECTIVE AND SUB-STANDARD CONSTRUCTION OF THE BUILDING.—If the building varies from the construction required for the standard building, there is a greater hazard than that assumed in making the key rate. In order to secure an adequate rate, charges must be added to the key rate. When walls are not constructed properly as to thickness, or floor openings, such as stairs, elevators, hallways, or vents, are defective in construction, both as to thickness of shafts and doors opening into the same, or there is unprotected iron or steel work, additions are made to the key rate.

EXCEPTIONAL CONSTRUCTION.—If the construction is above that required for the standard, a deduction is allowed from the rate. For example, a standard building does not require metal trim or that posts, beams, joints, and girders should be over 12 inches thick. The schedule provides a reduction if these are used in the building. The key rate plus the charges made for defective or sub-standard construction minus deductions made for exceptional construction would give the rate for the building, if unoccupied.

WORK PERFORMED AND MATERIAL KEPT IN THE BUILDING.—The presence or the manufacture of certain commodities may increase the possibility of fire and the danger of its rapid

spread. The schedule, therefore, provides that a charge, based upon the most hazardous occupancy in the building, be added to the rate. The rate for the building unoccupied, with this added charge, is called the rate for the building occupied.

FIRE APPLIANCES PROVIDED IN THE BUILDING.—To encourage fire prevention, reductions in rate are granted if fire appliances are introduced. Typical examples of fire appliances for which rate reductions are allowed are sufficient pails of water, automatic fire alarms, and chemical extinguishers.

EXPOSURE.—The fire hazard of two buildings of exactly the same type of construction will be affected by the buildings surrounding each. A charge, depending upon the buildings surrounding the risk to be rated, is made for the exposure hazard. The exposure hazard of the building may be minimized by the installation of such devices as standard wired glass windows or standard fire shutters.

MANAGEMENT OF THE BUILDING.—One of the serious causes of fire is the improper management of the building. Charges are made for increased hazards resulting from such faults of management as the following :

1. Use of gas stoves which are not properly protected or connected, such as the use of flexible and rubber tubing in place of the proper rigid iron pipe.
2. Crowding of merchandise.
3. Lack of drip pans under machinery causing the floors to be oil soaked.
4. Dirty conditions encouraging spontaneous combustion and quick spread of fire.
5. Defective electric wiring and equipment.
6. Unsafe heating apparatus or flues.
7. Careless handling of hazardous materials, such as celluloid, gasoline, paints and oils.

Special Considerations.—Under certain circumstances, other factors are also considered. Certain sections of a city may indicate an adverse loss ratio, for which a charge is made. On the other hand, there may be sections with special improvements.

Contents Rate.—After the rate for the building has been determined, the rate for the contents can be computed. The factors considered are very similar to those for the building and are essentially:

1. Key rate.
2. Defective and sub-standard construction of building.
3. Susceptibility of the occupancies in the building.
4. Inaccessibility to fire department.
5. Fire appliances provided in the building.
6. Nature of property surrounding the building (exposure).
7. Management of the building.
8. Special considerations.

KEY RATE.—The rating commences with the key rate, on the assumption that the building is standard.

DEFECTIVE AND SUB-STANDARD CONSTRUCTION OF THE BUILDING.—The fire hazard of the contents is increased by defective and sub-standard construction of the building. The fact is recognized, however, that building deficiencies do not affect the contents hazard as much as the building hazard. The schedule, therefore, provides that an allowance only from the charges for defective and sub-standard construction shall be granted to the contents rate.

SUSCEPTIBILITY OF THE CONTENTS.—The work performed by various tenants in the building or the stock kept by each tenant in the building varies in susceptibility to fire, water, smoke or heat. A stock of hats, for example, is much more susceptible than a stock of iron or steel bars. Similarly, the stock of a dealer in wearing apparel, or one who does pressing and general repair, is more susceptible to fire loss than stock of a jewelry repair establishment.

A classification charge, as determined by previous experience, is made for each tenant.

INACCESSIBILITY TO FIRE DEPARTMENT.—The fire department should have quick and easy access to the contents in case of fire. Hence, a charge is made, subject to exceptions, for stock kept above or below grade floor.

FIRE APPLIANCES PROVIDED IN THE BUILDING.—Deductions are made upon a theory similar to that used in rating a building.

NATURE OF PROPERTY SURROUNDING THE BUILDING OR EXPOSURE CHARGE.—Since the building in which the contents are kept is affected by surrounding buildings, the fire hazard of the contents may also be said to be affected, for which a charge is made.

FAULTS OF MANAGEMENT.—Charges are based upon the same theory as that used in rating a building.

SPECIAL CONSIDERATIONS.—Charges and credits are based upon the same theory as is used in rating a building.

Other Types of Schedules.—The non-fireproof mercantile schedule illustrates the method used in order to determine the specific rate of a mercantile non-fireproof building. There are several variations of the universal schedule used, the most important of which are the following:

1. Non-fireproof manufacturing schedule
2. Fireproof mercantile schedule
3. Fireproof manufacturing schedule
4. Sprinkler schedule

Results of Schedules.—Although the various schedules are not absolutely scientific, they have for a long time given some satisfaction to the insuring public for the following reasons:

FIRE PREVENTION.—The reduction in rates for fire appliances and fire resistive buildings has caused a great increase in the use of such appliances and the construction of such buildings.

FAIR RATE.—Since each risk is measured separately, the rate charged is a fair measure of the cost of protecting that particular risk against the hazard assumed by the insurance company.

ELIMINATION OF DISCRIMINATION.—Since the rates are no longer made upon guesswork or influenced by competition between underwriters, but are computed and promulgated by central bureaus, they are applied, according to the schedules, equally to all risks of the same class.

CHAPTER 5

SPRINKLER LEAKAGE INSURANCE—WATER DAMAGE INSURANCE

Need for Sprinkler Leakage Insurance.—In order to protect property against fire, sprinkler systems have been devised. The systems have resulted in reduction of loss due to fires, and have, therefore, enabled those who install such systems to obtain very low fire insurance rates. However, the introduction of the sprinkler systems has developed a new hazard; that is, damage to property caused by the sprinkler system itself, which may, for reasons other than a rise of temperature resulting from the presence of a fire, begin to operate and so cause a flood of water. The following are the important causes of leakage:

Freezing.

Defective parts in sprinkler equipment.

Unusual water pressure which the sprinkler head is unable to withstand.

Excessive heat.

Accidental injury to sprinkler system.

To provide against this hazard, sprinkler leakage insurance may be purchased.

Coverage.—Following are provisions which define the nature and extent of the company's liability:

1. Protection is given against direct loss and damage of property by sprinkler leakage.

2. The term sprinkler leakage means leakage or discharge of water or other substance from within the automatic sprinkler system resulting in loss or damage to property described in the policy.

3. The term automatic sprinkler means automatic sprinkler

heads, sprinkler pipes, valves, fittings, tanks, pumps, and all private fire protection mains, connected with or constituting a part of the automatic sprinkler system.

The term automatic sprinkler does not include non-automatic sprinkler systems, hydrants, stand pipes, or hose outlets connected to the automatic sprinkler system unless specifically provided for by endorsement added to the policy.

4. The policy also covers direct loss or damage caused by collapse or fall of a tank or component parts of the automatic sprinkler system. This damage is considered part of the loss caused by sprinkler leakage.

Exclusions.—Following are provisions which restrict and limit the coverage of the policy :

1. **DAMAGE TO AUTOMATIC SPRINKLER SYSTEM.**—The contract excludes any loss or damage to the automatic sprinkler system unless provided by endorsement under a separate item which mentions no other kind of property.

2. **MANUSCRIPTS, ETC.**—The company is not liable to an amount exceeding 10% of the policy for loss of damage to manuscripts, models, drawings, lasts, dies, or patterns, unless liability is specifically assumed within the policy for a stipulated amount, under a separate item, which mentions no other kind of property.

3. **LOSSES NOT COVERED.**—The policy does not provide against damages from seepage or leakage of water through building walls, foundations, sidewalks, or sidewalk lights unless caused by sprinkler leakage. The effects of condensation or deposits on the automatic sprinkler system and of floods, inundations, and backing up of sewers and drains are likewise not covered or by the influx of tide water or water from any source other than the sprinkler leakage system.

Furthermore, coverage does not extend to theft and damage caused by fire, lightning, cyclone, tornado, windstorm, earthquake, explosion and rupture of steam boilers and flywheels, blasting, invasion, insurrection, riot, civil war or commotion, military or usurped power, or by order of any civil authority.

The insured must use every available means to preserve the

remaining undamaged property after sprinkler leakage, if the policy is to cover the loss.

4. **AIRCRAFT.**—The company is not liable, except by special endorsement, for loss or damage caused by aircraft or aircraft equipment, whether on or off the ground and not in the building, or objects falling or descending from them.

5. **REPAIRS, ALTERATIONS, AND EXTENSIONS.**—Unless otherwise provided by endorsement, the company is not liable for losses resulting from newly installed automatic sprinkler systems or parts until properly tested and remedied for all defects detected. Liability does not attach to losses from major alterations and repairs. Minor repairs to keep the system in working order are permitted.

6. **UNOCCUPANCY.**—The sprinkler leakage policy does not cover a building or its contents while it is vacant or unoccupied, unless otherwise provided by special endorsement.

7. **CHATTEL MORTGAGE.**—The company is not liable for any property while encumbered by a chattel mortgage. During the time of such encumbrance the company is liable only for loss or damage to any other covered property.

The policy contains many clauses similar to those in the fire insurance policy referring to items such as fall of building, accounts, appraisals, etc.

Other Coverages.—The policy may also be written to cover cost of repairs and replacements to the automatic sprinkler system when the damage sustained is caused by freezing or caused directly by breakage of any of its parts resulting in sprinkler leakage. The company is only liable if the loss or damage exceeds the sum of \$25 and then only for the amount of the excess. No coverage is provided, however, in the cost of care and maintenance of the automatic sprinkler system and the cost of repairs and replacements made necessary by corrosion, rust, deterioration, or change in requirements, and any expense incurred in replenishing the contents of the automatic sprinkler system.

In addition to the coverages already mentioned, the follow-

ing are also available: (1) legal liability, (2) assumed liability, and (3) aircraft.

1. **LEGAL LIABILITY.**—One may be held liable in loss to property of other tenants in a building caused by the operation of the sprinkler system. Protection against this hazard is afforded by the legal liability form. Provisions of the form are:

- (a) The insured is covered for loss or damage to the property of others while in the building or buildings except any portion occupied by the insured.
- (b) When claim is made against the insured on account of loss or damage, he must notify the company, or its authorized agents, as soon as practicable.
- (c) If suit is brought against the insured he must immediately forward the summons or other process to the company's home office. The company will defend the suit at its own expense, on behalf of the insured and pay the amount of judgments rendered against the insured which the amount of the policy bears to all legal liability insurance. Judgment payments by the company cannot exceed the amount of the policy.
- (d) The company may relieve itself of all liability by paying to the insured (either before or after claim is made) the amount of insurance remaining in force.

The policy excludes liability to others assumed by the insured under any oral or written agreement, and settlement by the insured.

2. **ASSUMED LIABILITY.**—This form extends the policy to cover the property of others for which the insured has assumed liability.

3. **AIRCRAFT ENDORSEMENT.**—This endorsement provides for sprinkler leakage loss caused by aircraft or aircraft equipment outside the building whether on or off ground and to objects falling or descending from aircraft.

Need for Water Damage Insurance.—The hazards caused by the use of water in or about the premises have long been

recognized. Loss of property may result under any of the following circumstances:

1. Bursting of plumbing pipes, elevator tanks, and water mains.
2. Leakage of steam pipes and radiators, collapse of supply tanks.
3. Overflowing of tubs and basins.
4. Leakage from defective roofs and spouts, or from skylights forming part of the roof.
5. Leakage from faucets left open.
6. Freezing of pipes.
7. Rain through open or broken windows.

To provide against this hazard, the water damage insurance policy was introduced. The protection provided is very similar to the protection against sprinkler leakage. There is no physical limitation in the hazard, however, since there is no automatic alarm to warn against accidental leakage of water, as is possible in the sprinkler system. Water works quietly, and extensive damage may easily result in a few minutes.

Water Damage Policy Coverage.—Provisions of the policy are:

1. Protection is granted against all direct loss and damage caused solely by the accidental discharge, leakage, or overflow of water or steam from the following sources:

- (a) Plumbing systems (not including automatic sprinkler).
- (b) Plumbing tanks (for the storage of water for the supply of the plumbing system).
- (c) Heating systems.
- (d) Elevator tanks and cylinders.
- (e) Stand pipes for fire hose.
- (f) Industrial and domestic appliances.
- (g) Refrigerating systems.
- (h) Air conditioning systems.
- (i) Rain or snow admitted directly to the interior of the building through defective roofs, leaders or spouting, or by open or defective doors, windows, show windows, skylights, transoms or ventilators.

2. "Water damage" means the accidental discharge, leakage, or overflow of water, steam, rain, or snow from systems, tanks, appliances, and parts of buildings, insured against as sources of loss, resulting in loss or damage to property, whether the "water damage" originates in the portion of the building occupied by the insured or not, including "water damage" caused by freezing.

3. The company is not liable for loss or damage to any system, tank, appliance, or part of a building which is the source of such loss or damage.

4. Except as otherwise provided, the policy covers direct loss or damage caused by the collapse or fall of tanks, or the component parts or supports thereof, which form a part of the plumbing system. Such damage or loss is considered as incidental to and part of the damage caused by water.

Exclusions.—The company is not liable for loss or damage caused directly or indirectly by the following occurrences :

- (a) Seepage, leakage, or influx of water through building walls, foundations, lowest basement floors, sidewalks, or sidewalk lights.
- (b) Floods, inundation, backing up of sewers or drains, or the influx of tide, rising or surface waters.
- (c) Any gases, fumes, vapors, or rising temperature.
- (d) Fire, lightning, cyclones, tornado, windstorm, hurricane, earthquake, explosion (including explosion or rupture of steam boilers and flywheels), blasting, invasion, insurrection, riot, civil war or commotion, or by military or usurped power, or by order of any civil authority.
- (e) Theft.
- (f) Neglect of the insured to use all reasonable means to save and preserve the property at and after a "water damage."

The policy does not cover : (a) accounts, bills, currency, deeds, evidences of debt, money, notes, or securities ; (b) buildings or contents of buildings in process of construction or reconstruction unless entirely enclosed and under permanent roof with all outside doors and windows permanently in place ;

(c) open structures; (d) articles, materials, or other personal property not otherwise specifically excluded from the coverage of the policy, outside of enclosed buildings.

The company is not liable to an amount exceeding 10% of the policy for loss or damage to manuscripts, models, drawings, lasts, dies, or patterns, unless liability is specifically assumed in the policy for a stated amount, under a separate item which mentions no other kind of property.

Unless there is a written agreement added, the company is not liable for loss or damage:

- (a) From repairs, alterations, or extensions to the plumbing, heating, or refrigerating systems, or buildings, except that ordinary minor repairs necessary to care and maintenance are permitted.
- (b) From breakage of or leakage from street water supply mains or fire hydrants.
- (c) From aircraft or aircraft equipment (whether on or off the ground and not contained in the buildings described in the policy) or objects falling or descending therefrom.
- (d) While the building is vacant or unoccupied. If the policy is written to cover buildings or contents of a residence this exclusion does not apply except that the company is not liable for any loss or damage caused directly or indirectly through freezing if the residence has been unoccupied or unheated for a period (immediately preceding the date of loss or damage) exceeding 48 hours, unless the water supply was shut off and the water and other plumbing systems drained during such unoccupancy.
- (e) While the property is encumbered by a chattel mortgage, in which event the company is liable for loss only on other property which is free of encumbrance.

The policy contains other provisions similar to those of the fire insurance policy as well as the sprinkler leakage policy.

The following coverage can be attached to the water damage policy:

1. Underground water supply mains and fire hydrants endorsements.
2. Water lock endorsement.
3. Inspection and supervision endorsement.
4. Legal liability form.
5. Refrigerant leakage endorsement.

1. Underground Water Supply Mains and Fire Hydrants Endorsements.—This endorsement extends the coverage of the policy to loss or damage to insured property caused directly by the accidental discharge or leakage of water from water supply mains and fire hydrants.

The term “underground water supply mains” does not include any branch piping installed to supply any automatic sprinkler system.

The words “or (a) seepage, leakage, or influx of water through building walls, foundations, lowest basement floors, sidewalks, or sidewalk lights” contained in the policy therefore do not apply.

2. Water Lock Endorsement.—The provisions of this endorsement are:

- (a) The insured must at all times during the life of the policy maintain and keep in use a water lock installed upon the insured premises.
- (b) The insured agrees that he will properly maintain the water lock.
- (c) If the water lock is not properly maintained, any loss or damage caused by the leakage or precipitation of water from the plumbing system on the insured's premises is not covered by the policy.

3. Inspection and Supervision Endorsement.—The provisions of this endorsement are as follows:

- (a) The insured agrees that a complete inspection and supervisory service will be maintained in the premises covered, during the entire term of the policy;
- (b) If for any reason complete inspection and supervisory service is not maintained, the company is not liable for more than a stated per cent of any loss that may occur,

and is not liable for more than a specific per cent of the amount of the face of the policy; unless the company's consent is stated in the endorsement and an additional premium is paid to the company for the discontinuance of the stipulated inspection and supervisory service.

- (c) The insured agrees to give notice to the company in writing of any lapsing or discontinuance of the inspection and supervisory service.

4. Legal Liability Form.—This form is similar to the sprinkler leakage form, but it has been widened to cover loss or damage to surrounding buildings and contents thereof not owned by the insured.

5. Refrigerant Leakage Endorsement.—The water damage policy is limited to losses caused by water. However, by endorsement the policy can be extended to cover damage caused by the accidental discharge or leakage of the refrigerant from any refrigerating or air conditioning system. If this endorsement is attached to the policy, all provisions of the water damage policy apply except the following exclusions: "by any gases, fumes or vapors."

CHAPTER 6

EXPLOSION, RIOT, AND CIVIL COMMOTION

Need for Explosion, Riot, and Civil Commotion Insurance.—Explosion insurance is an essential need of enterprises, such as the following, in which the explosion hazard is inherent:

Aniline dye manufacturing	Gasoline plants
Artificial leather manufacturing	Gun cotton manufacturing
Benzol plants	Grain elevator and tanks
Celluloid manufacturing	Nitric acid plants
Cleaning and dyeing plants	Oxygen plants
Coal tar dye manufacturing	Resin and turpentine manufacturing
Distilleries	Rubber goods manufacturing
Firework manufacturing	Starch mills
Flour mills	Wood alcohol manufacturing

Policy Forms.—Coverage can be obtained by the simple explosion policy or by the riot, civil commotion, and explosion policy. Coverage can also be obtained by the supplementary coverage of the fire insurance policy as discussed previously.

Simple Explosion Policy Provision.—Coverage of the simple explosion policy is limited to all direct losses by explosion with the following exceptions:

1. Explosion originating within steam boilers, pipes, fly-wheels, engines, and machinery connected therewith and operated thereby.
2. Fire loss whether or not caused by explosion.
3. Damages caused by military or naval forces of foreign enemies notwithstanding any conditions of the policy to the contrary.
4. Accounts, bills, currency, deeds, evidences of debt, money, notes, and securities.
5. Theft.
6. Damage to glass except by endorsement.

Many of the provisions of the fire insurance policy are included in the explosion policy.

Riot, Civil Commotion, and Explosion Policy.—

1. **COVERAGE.**—Coverage is granted against riot; riot attending a strike; civil commotion; explosion directly caused by any of the foregoing; explosion from any other cause except fire resulting from explosion whether or not originating on the premises of the insured. Riot and riot attending a strike also include direct loss or damage by acts of striking employees of the owner or tenants of the insured buildings while occupied by the striking employees, excluding loss from damage to or destruction of the property owing to change in temperature or interruption of operations, resulting from riot or strike or occupancy by striking employees.

2. **EXCLUSIONS.**—No protection is provided for explosion originating within steam boilers, pipes, flywheels, engines, and machinery connected therewith and operated thereby. Furthermore, coverage is not provided for loss or damage covered under any fire or other kind of insurance contract; nor for loss or damage which, either in origin or extent, is caused directly or indirectly by or incident to war, invasion, or other warlike operations (whether war be declared or not). Losses resulting from delay, deterioration, or loss of market are similarly excluded. There is no liability for loss on accounts, bills, currency, deeds, evidences of debt, money, notes, securities, or by theft.

3. **GLASS COVERAGE.**—Liability for damage to glass is limited to 10% of the value of the building. In no event, however, is the company liable for a greater proportion of the glass loss than the ratio that the policy bears to all similar insurance whether or not the other insurance covers glass.

4. **CANCELLATION.**—The policy is not cancellable by either the company or the insured for a period of ninety days commencing with the effective date of the policy, after which it may be cancelled at request of the insured or by the company.

Miscellaneous Provisions.—Provisions covering excluded items, the penalty for misrepresentation, notice, appraisal, and many other matters follow the form of the standard fire policy.

Liability for Theft.—The exclusion of the liability for “theft” in the printed conditions of the policy does not release the company from responsibility for direct loss from pillage or looting, when such pillage or looting occurs during and at the immediate place of a riot, subject in all respects to the

conditions and limitations of the policy. This provision does not apply to the simple explosion policy.

To meet special conditions, the following endorsements may be used with the riot and civil commotion and explosion policy.

1. Authorized Destruction of Property.
2. Ten Per Cent Glass Limitation Waiver.
3. Term Policy and Short-Term Insurance.
4. Inherent Explosion Hazard Exclusion.
5. Common Carrier's Legal Liability Form—Liability Disclaimed.
6. Common Carrier's Legal Liability Form—Liability Not Disclaimed.
7. Vandalism or Malicious Mischief.
8. Mortgagee Interest.

1. **AUTHORIZED DESTRUCTION OF PROPERTY.**—Subject to expressed conditions coverage is extended to cover all loss caused by explosion (excluding fire damage), authorized by duly constituted governmental or civil authorities of the county in which the property is located for the purposes of retarding a conflagration.

2. **TEN PER CENT GLASS LIMITATION WAIVER.**—The 10% glass limitation may be waived by endorsement providing that coverage is extended so that the company is also liable for loss and damage to glass which is a part of the buildings insured. The company is not liable for a greater proportion of such loss or damage than the amount which the policy bears to the total amount of all similar insurance whether or not such other insurance includes liability for the loss to glass.

3. **TERM POLICY AND SHORT-TERM INSURANCE PREMIUM.**—The premium is based upon an annual term policy and subject to usual short term practices as in other lines of insurance. The cancellation provision in the policies, however, can be changed under the following circumstances: (a) When desired, the cancellation provisions may be changed so as to require 30 days' written notice by either party to the contract before cancellation can be effected after the end of the ninety-day non-cancellation period. (b) No policy will be issued for a

shorter term than 90 days and no policy will be subject to cancellation until 90 days after the effective date of the policy except that the policies covering contents of public storage stores, railroad terminal elevators, railroad or steamship piers, cotton in public warehouses, compresses, yards, and piers may be written for periods of less than one year at the short rates of fire insurance practice. Such policies may also be cancelled at short rates during the term at the request of the insured.

4. **INHERENT EXPLOSION HAZARD EXCLUSION.**—An endorsement may exclude liability for loss or damage caused by explosions resulting from hazards inherent in the business of the insured and of tenants occupying the building, which may be covered by the fire insurance policy as discussed previously.

5. **COMMON CARRIER'S LEGAL LIABILITY FORM—LIABILITY DISCLAIMED.**—A common carrier may be liable to others for losses from riot, civil commotion, or explosion. This liability may, however, be disclaimed when a bill of lading or a shipping receipt has been issued to anyone shipping a cargo on the common carrier. In spite of this disclaimer, suits may be commenced against the common carrier. The company will protect the carrier by means of the clause known as "Common Carrier's Legal Liability Form—Liability Disclaimed." This clause carries provisions as follows:

(a) The company is liable for a stipulated sum on the legal liability on merchandise in the custody of common carriers, warehousemen, wharfingers, forwarders, or freighters, while contained in a specific location.

(b) The company indemnifies the insured for their legal liability to the amount they are obliged to pay for such merchandise by reason of loss assumed in the policy. However, such hazards in bills of lading, shipping receipts, and other similar documents are disclaimed.

(c) The company agrees to resist all claims under the direction and control of the company provided the claims are not in excess of the amount insured. The cost of resistance whether conducted by the insured or by the company is paid by the company in the proportion that the amount of the policy bears to the total claims.

(d) In the event of loss of property covered by the policy, the company is subrogated to all claims upon owners of merchandise to the extent of payments made to the insured.

6. COMMON CARRIER'S LEGAL LIABILITY FORM—LIABILITY NOT DISCLAIMED.—The bill of lading may not contain a disclaimer against liability for losses from riot, civil commotion, and explosion. In order to protect the carrier against loss the companies will issue a clause known as the "Common Carrier's Legal Liability Form—Liability Not Disclaimed," which carries the following provisions:

(a) The company is liable for a stipulated sum: (1) on the legal liability in or for all merchandise or baggage held in the custody of common carriers, warehousemen, wharfingers, forwarders, or freighters; (2) also on their interest in all advances or other charges due or to become due upon all merchandise or baggage while contained in a specific location.

(b) If the claim is made against the insurers for merchandise or baggage, the insurers have the option of either admitting the claim for payment or of resisting it in court. The legal expenses incurred in resisting the claim are borne by the insurance companies in the proportion that the amount of the policy bears to the total claims.

7. VANDALISM AND MALICIOUS MISCHIEF ENDORSEMENT.—By this endorsement the company becomes liable for losses resulting from willful and malicious destruction of insured property. The term "Vandalism" means only willful and malicious physical injury to or destruction of the property.

The following losses are not covered by the above endorsement:

- (a) Damage to glass constituting a part of the building.
- (b) Damage by fire, explosion, pilferage, theft, burglary or larceny.
- (c) For depreciation, deterioration.
- (d) Damage caused by delay or loss of market, or for consequential loss.

8. MORTGAGEE INTEREST ENDORSEMENT.—This blanket endorsement covers within specified limits the first mortgagee interests of such financial organizations as building and loan associations, banks, trust companies, and mortgage loan corporations which own numerous first mortgages.

The company is not liable for any loss on any one building, in excess of any and all specific insurance thereon, in favor either of the first mortgagee or mortgagor unless the loss has impaired the security of the mortgagee to such an extent that the value of the land as appraised at the time of the loss, and the remaining value of the building plus the specific insurance, if any, do not equal the balance due under the first mortgage interest of the insured on the damaged property. The company is liable then only for the difference between the value of the property remaining plus the specific insurance, if any, and the amount due on the first mortgage interest of the insured, not exceeding a specific sum on any one building.

Liability is further limited to that portion of actual loss which the amount of the policy bears to a stipulated percentage, as 25%, of the total amount of outstanding loans by the insured within the specified territory at the time of loss. If the total first mortgage interest insurance upon such property exceeds 25% of outstanding loans at the time of loss, the company is liable for the proportion which the sum covered under the policy bears to total first mortgage interest insurance, not exceeding the actual amount of loss to the first mortgagee's interest.

The policy does not cover the first mortgage interest when the building is used for manufacturing or the business consists principally of converting raw or partially wrought materials into wares or merchandise or articles which are different in any respect from the raw or partially wrought materials before they enter the process of conversion.

A second mortgage interest form protects the interest of the second mortgagee under the same provisions as the endorsement covering the first mortgagee.

CHAPTER 7

WINDSTORM, CYCLONE, AND TORNADO INSURANCE—EARTHQUAKE INSURANCE

Windstorm, Cyclone and Tornado Insurance Policy.—

The development of windstorm and tornado insurance was at first very slow, but the occurrence of a number of severe windstorms and tornadoes causing heavy losses has given impetus to its development. Coverage can be obtained by endorsement of the fire insurance policy. Coverage is also afforded by a separate policy which provides for direct loss resulting from windstorm, cyclone, and tornado.

HAZARDS CONDITIONALLY COVERED.—Coverage is not afforded for loss caused by rain or snow, whether driven by wind or not, unless the building first sustains an actual opening in the roof or walls by the direct force of a windstorm, cyclone, or tornado. The company is liable only for such loss or damage as may be caused immediately by rain or snow entering the building through openings in the roof or wall as the direct result of such windstorm, cyclone, or tornado. The company is also not liable for loss or damage caused by water from sprinkler equipment or other piping unless damaged as a direct result of a windstorm, cyclone, or tornado.

The company is not liable for loss or damage by fire, whether or not caused by windstorm, cyclone, or tornado. In case any building, or any material part of the building, falls as a direct and immediate result of a windstorm, cyclone, or tornado, the policy covers loss by fire as may result from fire immediately following as a direct result of such windstorm, cyclone, or tornado. In no case, however, will the policy be extended to cover fire loss unless fire insurance has ceased because of the falling of the insured building, or any material part of it, as the result of windstorm, cyclone or tornado.

HAZARDS EXCLUDED.—The policy does not provide coverage for losses from frost or cold; from cloudburst, explosion, or lightning; from tidal wave, high water, or overflow, whether driven by wind or not; from civil commotion or authority; from military or usurped power; from theft or neglect of the insured to conserve the property. The company is not liable for these losses whether or not they are incidental to a windstorm, cyclone, or tornado.

HAZARDS COVERED BY SPECIAL AGREEMENT.—Unless otherwise provided by agreement in writing, the company is not liable for losses caused by hail, whether driven by wind or not, nor except as otherwise provided, for any other consequential loss. Growing crops are not covered.

GLASS COVERAGE.—The policy does not cover any plate, stained, leaded, or cathedral glass when such glass is covered against loss by breakage under any other kind of insurance policy or contract. When such glass is not otherwise covered, the policy is extended to cover such glass. When liability for such glass is included under the policy, only such proportion of the insurance on any building covers on plate, stained, leaded, or cathedral glass therein as the value of such glass bears to the value of the insured building. The amount of insurance on such glass, as thus determined, is applied to each plate of glass in the proportion as it bears to the value of all the glass.

EXCLUDED ITEMS.—The policy does not cover: accounts, bills, bullion, currency, deeds, evidence of debt, money, notes, securities, or manuscripts; grain, hay, straw, or other crops outside of buildings; radio aerials and their supports. Coverage does not extend unless specifically mentioned in the policy to automobiles, tractors, and other self-propelled vehicles, awnings, books of account, casts, cranes or hoisting apparatus unless in enclosed buildings, curiosities, drawings, drilling rigs, electric or telephone and telegraph transmission wires and their supports outside of buildings, fences, jewelry, live stock, lumber, medals, metal stacks, models, oil derricks and pumping rigs, patterns, pictures, radio towers, scientific apparatus, sculpture, signs, silos and their contents, sheds unless entirely en-

closed and their contents, stand pipes, windmills or wind pumps and their towers, water towers and water tanks and their supports, other tanks and their contents and supports, tramways or trestling and their superstructures and contents, temporary roofs, temporary roof structures and their contents, temporary or board roof additions and their contents, buildings and contents of buildings in process of construction or reconstruction unless entirely enclosed and under permanent roof with all outside doors and windows permanently in place, articles or materials or other personal property or open structures not otherwise specifically excluded under the policy outside of enclosed buildings.

MISCELLANEOUS PROVISIONS.—With respect to mortgagee interest, requirements in case of loss, appraisal, subrogation, and other miscellaneous provisions, the windstorm, cyclone, and tornado policy corresponds to the standard fire insurance policy. As in fire insurance, various clauses and forms are added to meet special needs of policyholders.

PREMIUM CHARGE.—Rates depend upon the following factors:

1. The chances of windstorm. It is well known that certain sections of this country are more likely to suffer loss or damage from windstorm or tornado than other sections.
2. The construction of the building.
3. The area of the building.
4. The susceptibility of the building and contents to damage.

Earthquake Insurance Policy.—Earthquake insurance developed as the result of the terrific destruction of lives and property caused by earthquakes in the past. The tendency is for earthquake insurance to be purchased in those districts where earthquakes have occurred previously, although some earthquake insurance is being sold in districts which have as yet sustained no loss from such catastrophes. It is claimed that no section of the United States is entirely immune from the possibility of earthquakes. This dread has been the chief cause for the purchase of the earthquake insurance policy.

COVERAGE.—Earthquake insurance policy covers liability for loss by earthquake or volcanic eruption and by removal of the property from premises endangered by earthquake or by volcanic eruption subject to the following conditions and exceptions.

HAZARDS NOT COVERED.—The company is not liable for damage caused by windstorm or tidal wave, snowstorm, blizzard, frost or cold weather, explosions, fire, lightning, high water, overflow, cloudburst, theft, and actions of any civil authority and units exercising military or usurped power.

FIRE LOSS.—If fire occurs subsequent to any loss by earthquake or volcanic eruption, the company is liable only for the loss which occurred previous to the fire. When a building or any material part of the building falls as the result of an earthquake or volcanic eruption and fire insurance coverage ceases, the earthquake policy is extended to cover any fire loss occurring subsequent to such fall of building and termination of liability under the fire insurance policies.

CONDITIONAL COVERAGE.—No liability attaches for losses from hail, rain, or snow unless the building first sustains actual damages from earthquake or volcanic eruption to its roof or walls. In that event, the company's liability is limited to the losses caused by hail, rain or snow entering the building through openings in the roof or walls as the direct result of an earthquake or volcanic eruption.

FORMS AND CLAUSES.—Provisions of the fire policy relating to mortgage interests, subrogation, suit, abandonment, appraisal, and requirements in case of loss are followed in the earthquake policy. The forms and clauses affording protection for rent, profits, use and occupancy, and leasehold interests in the event of eruptions and earthquakes are similar to the corresponding forms and clauses added to the standard fire insurance policy.

BASIS FOR PREMIUM CHARGE.—A knowledge of physical forces and extent of hazards is necessary for equitable formulation of rates. The following facts are considered in estimat-

ing probable liabilities which must be covered in the premium charge:

1. Material upon which the foundation rests. Buildings which rest respectively on rock, gravel, sand, and mud are not equally susceptible to the same amount of shock. Hence an essential variation in the amount of damages depends upon the material used in the foundation of the building.

2. Construction of the foundation. Some type of construction may expose the building to easy damage by a shock. Other types are very good to withstand the strain of an earthquake.

3. The unity in the building as to materials, rigidity, flexibility, and swing. It has been found in previous earthquakes that the greater the unity of the building the smaller is the chance that there will be a severe loss.

4. Position of the "faults" or "rifts." The severest earthquake shocks occur at the "faults." The farther the "fault" is from the property, the milder will be the damage.

5. The frequency of destructive earthquakes in the vicinity. Knowledge of this point is important in estimating probable liability.

CHAPTER 8

RAIN INSURANCE

Need for Rain Insurance.—In enterprises and events requiring fair weather for success, rain may cause serious financial loss. Only a few of the businesses adversely affected by rainfall need be mentioned. Examples are auction sales, amusement parks, baseball games, carnivals, celebrations, church fairs, dances, excursions, county and state fairs, football games, gasoline filling stations, mercantile sales, parades, prize fights, races, rodeos, and tag days. Rain insurance protects the promoters of these events against financial loss due to rainfall.

The rain insurance policy indemnifies the loss of income or gross profits on events which are dependent upon favorable weather for success when the loss is caused by rain. The word "rain" means precipitation as described by the United States Weather Bureau and therefore includes rain, hail, sleet, and snow.

Since weather conditions may be predicted, the application for rain insurance must be submitted seven days before the date for which the insurance is desired.

The policy generally provides that the amount of the rainfall, usually one-tenth or two-tenths of an inch, be based upon measurement obtained from a government weather station. If the policy provides for measurement of rainfall, the insured is required to make arrangements at his expense with the weather observer named in the policy to ascertain the measure of rainfall during the period of time covered at the exact location of the rain gauge. If the policy provides for no specific measurement of rainfall the company's agent must instruct the insured to make arrangements with three disinterested citizens to determine the exact time of rainfall, if any, at the place designated

in the policy where rainfall must occur during the period covered by the policy.

The term of all business written, except in policies requiring no specific measurement basis, commences and ends on the hour. The minimum period of insurance is three consecutive hours.

No policy for any one day on continuous events may be issued except for a period of consecutive hours. If events are to be held for a definite period of hours at different times on the same day at the same location and have separate records of income for each specific period they may be covered as separate events.

Since insurable events present different problems, the following types of policies are available :

Form A—One or more days income from sources named.

Form B—Abandonment form—expenses with no income expectancy.

Form C—Fairs and running races—income from sources named.

Form D—Expense income or profits.

Form E—Advance sale of tickets.

Form F—Advertising space—publishers.

Form A—One or more Days' Income from Sources Named.—This form is used to insure: (a) events having an income, and (b) gross profits on mercantile sales.

The form can be issued for a definite period of consecutive hours each day. The policy can be written subject to one-tenth inch rainfall, two-tenths inch rainfall, or no specified amount.

The amount of insurance permitted for any one day cannot exceed the following percentages of applicant's proportion of the gross income or gross profit if a mercantile event is insured, received from like sources at the last holding of the event on a similar day which was not affected by rainfall.

(a) 100% when the policy insures against one-tenth or two-tenths of an inch of rainfall.

(b) 80% except on baseball games when the policy insures against no specific amount of rainfall.

- (c) 50% when the policy covers baseball games against no specific amount of rainfall.
- (d) Where no previous experience is available, the amount of insurance for any one day cannot exceed the expenses incident to the event or business, for such day, without special authority of the company.

Provisions of the policy are :

1. If the income insured for the entire day, regardless of when received, does not equal or exceed the amount of insurance, the company is liable for the difference between the amount of insurance and the amount of income received. When the gross profits on mercantile sales are insured, and the amount figured at the percentage of profit named in the policy, for the entire day, regardless of when received, does not equal or exceed the amount of insurance, the company is liable for the difference between the amount of insurance and the amount of gross profits received.

2. The company's liability is limited to actual loss sustained by reason of rainfall at the specific location provided in the schedule of the policy, for measuring that rainfall or at which the rainfall must occur during stipulated hours. The company is not liable for any loss caused by rainfall at any other place or time.

3. If baseball games are covered against no specific amount of rainfall, the liability of the company does not extend beyond the end of five innings and in case of "double headers" beyond the end of five innings of the first game played.

4. If outdoor events are covered, the company is not liable unless the participants have arrived in the city or town and are prepared to perform at the time the event is scheduled to commence.

5. If a mercantile or auction sale is covered, the amount of gross profits for any day is determined by multiplying the amount of cash and credit sales for the entire day by a specific per cent, but the company is not liable for loss on any day unless the insured's place of business remains open to the public during the usual business hours on that day.

6. In the event that any one day event other than baseball is postponed to a later day, on account of rainfall, the policy is extended to cover on the postponed date.

7. In case one-tenth of an inch or more of rainfall is specified in the policy, the insured must make arrangements with a weather observer to measure with a rain gauge at the specific location covered, the actual precipitation during the period of time provided in the policy. On demand of the company, a certified record of rainfall must be furnished.

8. If less than one-tenth of an inch of rainfall is required, the insured must make arrangement with three disinterested reputable citizens to determine the exact time of rainfall, if any, at the place provided during the period of time provided in the policy. On demand of the company, such citizens must furnish a certified statement showing the period of time such rainfall occurred.

Form B—Abandonment Form—Expenses with No Income Expectancy.—This form protects the insured against loss of expenses from which no income is expected. No specific amount of rainfall is required in the policy or subject to one-tenth inch or two-tenths inch rainfall. The amount of insurance on any one day cannot exceed the actual expenses of the event. Under certain circumstances coverage for those events may also be obtained under Form D. Provisions of this policy are:

1. If, by reason of rainfall on any one day during the period of time provided for the day, it becomes necessary to abandon or postpone the event to a later date, the company is liable for no more than the actual fixed charges and expenses incident to that event and business covered for the specific day, or for no more than the actual loss sustained, but not exceeding the amount of the insurance. The actual loss must have been sustained by reason of rainfall at the specific location and during the hours specified. The company is not liable for any loss caused by rainfall at any other place or time.

2. Any salvage, savings, or gross income from any sources, regardless of when received, which may accrue to the insured,

in case of abandonment or postponement, is deducted from the amount of the insurance.

3. If outdoor events are covered, the company is not liable unless the participants have arrived in the city or town and are prepared to perform at the time the event is scheduled to commence.

4. Arrangements must be made with three disinterested citizens to determine the time of rainfall, at the place provided during the period of time provided. The company may demand a certified statement of their findings. If policy is subject to amount of rainfall, insured must arrange with weather observer to measure with rain gauge at specific location actual precipitation during time provided and give on demand a rainfall record.

Form C—Fairs and Running Races—Income from Sources Named.—This form is used for fairs and running races where similar events have been held over a period for at least three consecutive years. The applicant's proportion of gross income, at the last holding of the event not affected by rainfall on fairs must have been \$5,000 or more for the entire period or on running races, \$10,000 or more per day.

Form A may also be used for these events to cover the difference between the amount of insurance and the income received. In contrast, Form C is based on an anticipated gross income and covers the difference between the anticipated gross income and income received but not in excess of the amount of insurance.

Generally the amount of insurance required is as follows:

- (a) On fairs, on any one item of insurance, not less than 50% of the agreed anticipated gross income from the sources of income covered on such item.
- (b) For running races on any one item of insurance, not less than $33\frac{1}{3}\%$ of the agreed anticipated gross income from the sources of income covered on such item subject to a minimum amount of insurance of \$5,000 per day.

The policy may provide coverage for one-tenth or two-tenths of an inch rainfall. Under certain circumstances this coverage may be covered by Form D. Provisions of the policy are:

1. The policy will cover, if by reason of agreed amount of precipitation and rainfall at a specific location provided for ascertaining the measurement, during a specific period of time, actual loss is sustained, not exceeding the difference between the gross income from sources named, for that day and the amount of the anticipated gross income provided for such day, nor for more than the amount of insurance provided for that day.

2. The rainfall to the amount required must occur at the specific hours provided. The company is not liable for any loss caused by rainfall at any other place or time.

3. The insured is required to make arrangements with a weather observer to measure with a rain gauge at the specific location, the actual precipitation during the time provided. He must furnish the company, on demand, a certified record of the measurement.

Form D—Expense, Income or Profits.—The valued policy as this form is called provides indemnification for loss of income (or gross profits, on mercantile sales) or for loss of money advanced for expenses for a definite period of consecutive hours each day. In general, this policy provides coverage against one-twentieth inch rainfall, one-tenth inch rainfall or two-tenths inch rainfall. Provisions of this form are:

1. The insured is indemnified against loss by rainfall incidental to the covered event held at a specific location.

2. In the event of the required rainfall, the company becomes liable except as otherwise provided, for the full amount of insurance for that day, but not exceeding one of the following:

- (a) 100% of the net expenses incurred by the insured that day and lost by rainfall. This test is usually applied where there is no previous experience.
- (b) 60% of gross income from a similar past event unaffected by rainfall. This limit is applied where there is a record of gross income from similar sources.
- (c) 60% of gross profit on the last similar day unaffected by rain. This limit is applied to mercantile and auction sales on the basis of past experience.

3. The insured is required to make arrangements with the United States Weather Bureau for obtaining a rainfall reading with a rain gauge during the period of time provided, in which the measure of rainfall is to be determined, and, on demand, furnish the company a certified record of such reading. The company is not liable for any loss caused by rainfall at any other place or time.

4. If a mercantile or auction sale is covered, the amount of gross profits for any day is determined by multiplying the amount of cash and credit sales for the entire day by the stipulated per cent.

5. No other rain insurance is permitted for the event, unless an agreement in writing is added to this form.

Form E—Advance Sale of Tickets.—This form indemnifies high schools, colleges, promoters of professional football games for loss of income from advance sales of reserved seat tickets, provided such tickets are returned unused for refund of purchase price on account of rain. The minimum amount of rainfall insured against is one-tenth inch.

When issuing a ticket which is redeemable, the agreement refund of purchase price of ticket must show the amount of rainfall required, the date, and the hours during which the rainfall must occur. The agreement must be printed on a "Rain Insurance Certificate" which can be detached from the ticket when the "Gate Stub" is detached on presentation of the ticket for admission at the gate. Provisions of the policy are:

1. In the event of a specific amount of rainfall at a stated location during a specific period of time provided for in the policy, the company agrees to indemnify the insured for not exceeding the amount that the insured has to refund the holders of unused redeemable reserved tickets sold to purchasers, at not exceeding the purchase price of the tickets, including tax, if any, but excluding the premium cost, that may have been charged by the insured for the event.

2. The insured may at its option sell reserved tickets, the purchase price of which is subject to return in case of rainfall as specified. Reserved tickets in order to come within the scope of the policy, must meet the following conditions:

- (a) Each redeemable reserved seat ticket must have attached a numbered rain insurance certificate which clearly indicates on it the specific conditions under which it may be returned for refund, and in such event the amount of the refund.
- (b) No redeemable reserved tickets can be sold subsequent to seven days preceding the event for which it is issued.
- (c) Any redeemable reserved ticket returned for refund must be intact and unused and must have the rain insurance certificate attached.
- (d) No redeemable reserved ticket-holder is entitled to a refund unless the unused ticket is presented for refund to the insured within 30 days following the date of the event for which it is issued.

3. The company is not responsible for tickets in the possession of individuals, brokers, selling agents or other selling agencies who hold or have purchased the tickets for resale.

4. The insured is required to return all rain insurance stubs to the company five days prior to the date of any scheduled event provided for under the policy. Each stub must indicate the purchase price, including tax. The premium due the company must be remitted with the report.

5. The company is not liable for any refund unless the participants have arrived in the place designated for the event and are prepared to perform at the time and on the day the event is scheduled to commence. The company is not liable in case the event is abandoned for any cause other than rainfall.

6. In case any one-day event covered is postponed to a later day, on account of rainfall in the amount provided, during the period of time covered, the policy is extended to cover on the postponed date.

7. The insured is required to make arrangements with a weather observer, to measure with a rain gauge at the specified location the actual precipitation during the period of time provided, and upon demand, submit to the company a certified record of same. The company is not liable for any loss caused by rainfall at any other place or time.

Form A or Form D may be used to insure anticipated income from sale of tickets, other than redeemable reserved seat tickets.

Form F—Advertising Space—Publishers.—Prospective purchasers of advertising space may be deterred by fear that the amount expended may be wholly or partly lost through rain. To meet this problem of publishing and advertising concerns, Form F will cover losses of income from advertising space by indemnifying the insured publisher for an amount which he has agreed to refund the advertiser in case of rain.

When space is purchased, the publisher agrees, in event of a specified amount of rainfall during the specified number of consecutive hours, to refund to the advertiser the total or part of the amount paid for advertising or to rerun the advertising at reduced cost or free of charge.

Most merchants who advertise in newspapers, or other advertising mediums, place the advertisement to appear on certain dates, or in certain editions of the publication, because they hope to receive the benefit therefrom at a later date, or from a particular sale. For example, a newspaper may be published on Thursday. Merchants who advertise in that edition hope to attract customers for Saturday sales, or for a sale which is to be held at a later date. The sale of space will be facilitated if the advertiser knows that in the event of rain on the date of the sale the amount expended for advertising space will be refunded in whole, or in part.

The amount of insurance to be purchased depends upon the agreement the publisher desires to make with the advertiser. The publisher can use the following plans:

- (a) Return cost of the advertisement.
- (b) Return percentage of the cost of the advertisement.
- (c) Reprint the advertisement at a reduced cost.
- (d) Reprint the advertisement free of charge.

The amount of insurance that will be granted cannot exceed the estimated income to be derived from the advertising space sold under the agreement for refund or reprint, in case of rain. However, the amount may be limited, if the publisher so desires,

to an amount sufficient to refund only a percentage of the cost of the space on which refund is to be made, or it may be limited to the cost of reprinting the advertisements which come under the agreement for reprinting. The provisions of this form are:

1. In the event of a specified amount (one-tenth inch or two-tenths inch) of rainfall as recorded by a rain gauge at the United States Weather Bureau, or by a government weather observer at a specific location occurring on any one day during the period of time provided for such day, the company is liable, except as otherwise provided, for not exceeding the amount of insurance specified for that day.

2. The amount of insurance and the premium charged are based on the estimated number of inches of advertising space sold, or to be sold, by the insured in a specific publication to be published in a specific location, on a specific date or dates, at a specific average cost per inch.

3. In the event of rainfall in the amount required, on the day specified, during the period of time provided for such day, the insured will return to the purchaser of advertising space the amount paid for that advertising space, or a specified percentage of it, or will reprint the advertisement at a reduced cost, or free of charge.

4. When the publication forms are closed for any issue of the publication, containing advertising space insured, the insured must make an immediate report to the company of the number of inches of such advertising space, and must furnish a marked copy of that particular publication, indicating the specific advertisements covered by the insurance.

5. The liability of the company for any one day is limited to the amount of insurance provided for such day. However, in the event the amount of advertising space sold, figured at the average cost per inch as specified, does not equal the amount of insurance provided for such day, the company will cancel the excess insurance over and above the amount derived, or to be derived from the sale of such advertising space, and will return the premium, pro rata, on the insurance so cancelled.

6. The insured is required to make arrangements with the United States Weather Bureau, or with a government weather

observer, for obtaining a rainfall reading at the location of the rain gauge, and is required, on demand, to furnish the company a certified record of the measurement of the rainfall. The company is not liable for any loss caused by any rainfall at any other place or time.

7. No other rain insurance is permitted on this event unless an agreement in writing is added to this form.

General Policy Provisions.—The various forms are attached to the policy contract. Irrespective of the form attached, the entire rain policy is void unless the premium is received by the company or a duly authorized agent in advance of the period of insurance. The time of the policy is based on standard time at the place of loss. In localities where daylight saving time is used, standard time means daylight saving time.

Unless otherwise provided by written agreement, the contract cannot be cancelled by either party. In case of fraud and misrepresentation, loss and suit, and in other respects, the rain policy contains clauses similar to those contained in the fire insurance policy.

Rates.—The premium charges for rain insurance are based upon an analysis of the measurement and frequency of rainfall. This measurement is obtained from the reports of the Weather Bureau Stations conducted by the United States Government. Obviously, weather conditions vary throughout the United States, and rates, therefore, depend primarily upon the amount and frequency of rainfall in the section for which the policy is to be issued and the effective date of the policy. In addition to this primary consideration, the premium charge depends upon the duration of the policy, the amount of rainfall required before the insured can hold the insurance company liable, the month during which coverage is granted, and variations in the contract conditions of the policy.

In certain sections of the country a higher rate may also be charged during the summer months for policies covering the afternoon during the so-called "thundershower" period which has been found to exist in some territories.

CHAPTER 9

HAIL INSURANCE

Need for Hail Insurance.—One of the serious hazards of the farming industry is the possible loss of crops through hail. Hail losses occur over the country, but frequency, intensity, and damage are greater in some areas than in others. Crop losses from hail may be singled out from other hazards and for all practical purposes are inescapable. Consequently hail insurance serves an important need and is the only type of crop insurance now written to any extent.

The losses from hail storms vary greatly year by year. The losses are, however, heaviest in those regions where farmers concentrate on one crop, and a hailstorm during a critical period in the growth of the plant is sufficient to cause a ruinous loss. In these regions the tendency is to insure the main crop.

A distinctive feature of hail insurance is the period of coverage. The policy is not written for a specific period of time, as are most other forms of insurance. The coverage is written either for the period of crop development or until the crop is completely harvested.

The Application.—The policy of hail insurance is strictly a property damage coverage. The basis of the policy is an application which is attached to the policy when issued and is, therefore, made a part of the contract.

Provisions of the policy are :

1. The policy commences 24 hours after the application is signed by the insured and the agent of the company, and continues until the crop is harvested or otherwise disposed of, unless the crop is destroyed. The expiration date is the 15th of October unless otherwise provided.

2. The company is liable for 48 hours after receiving the application at its policy-writing office. The company must notify the applicant if it desires to terminate all liability and the lia-

bility of the company is terminated upon the receipt of the notice by the applicant for the insurance.

3. The application contains the following important information:

- (a) The insured's interest in the crop to be insured.
- (b) The number of acres insured.
- (c) The kind of crop.
- (d) If the policy covers fruit or vegetables, the number of and variety of trees or plants.
- (e) The age of trees or plants.
- (f) The amount of insurance per acre required.

4. The insured warrants that the crops described are all the crops that he owns in the section or location of the property described or in adjoining locations. If there are any other locations, the application must contain a description of these locations.

5. The insured certifies that the crops upon which insurance is applied for have not been hailed upon previous to the time of signing of the application.

6. Insurance covering tree fruits takes effect when the fruit has set and shows signs of a normal crop, not diseased. Injury to trees, blooms, or blossoms is not covered whatever the cause.

7. The policy does not cover damage to the vine, plant, or bush, or leaves, unless the damage affects the crop, and then only to the extent the product has been damaged, unless specifically described and insured as non-bearing vines, plants, or bushes.

8. If corn, corn fodder, or ensilage corn is covered, the insurance takes effect when the second joint of 75% of the plants is clearly visible above the ground from an outside inspection. Corn stalks or leaves are covered when and to the extent that the product is damaged. If the crops are planted, grown, and specifically described in the policy schedule as fodder or ensilage corn, the policy covers the loss or damage to corn stalks or leaves but not to the grain produced on these crops.

9. If cotton is covered in the policy, the insurance takes ef-

fect when the crop is up and shows a stand. The policy covers loss or damage to cotton stalks, leaves, or squares and blooms only when and to the extent that the product is damaged. The policy does not cover cotton stalks, leaves, or squares and blooms after 12 o'clock noon, September 15, prior to the expiration date of the insurance. Not more than one-third of the amount of insurance applied for takes effect before 12 o'clock noon of the 15th day after the cotton was up to a stand. Not more than two-thirds of the amount of insurance applied for takes effect between 12 o'clock noon of the 15th day and 12 o'clock noon of the 30th day after the cotton insured was up to a stand. The company is liable only until the cotton has matured, that is, the bolls have opened.

10. The insurance of the policy covers only marketable commercial crops. The company is not liable for loss or damage to culls, blighted worm-cast, or diseased crops of any character, nor crops which have for any reason been abandoned.

11. Crops which have been cut, dug, picked, pulled, or harvested are not covered wholly or in part.

12. The insured must keep and when required submit a complete record of the cutting, digging, or otherwise harvesting of any crop described in the schedule. Violation of this provision frees the company from liability.

13. If a crop may be reset, replanted, or regrown and matured during the insured season, the company's liability for crop losses is limited to the cost of resetting or replanting.

14. The company is liable only when the loss from hail equals at least a stipulated percentage, such as 5% or 10%, of the particular risk at the date of the loss.

15. The company is not liable for loss or damage to any crop or part of crops insured under the policy: (a) if the loss or damage results from any other cause combined with hail; (b) if the loss is the result of hail, but the crop has been so injured or damaged from any other cause or causes as to preclude a profit over and above the actual cost of harvesting, storing and marketing of such crop; (c) if the hail damage occurred because of the neglect or failure of the insured to cut, dig, pick, pull, or otherwise harvest matured crops.

16. In case the exact acreage of any crop covered is less than the total acreage stated in the insured's application, the insurance will be reduced in that proportion which the ascertained deficiency in acreage bears to the total acreage stated in the application. The company will refund to the insured the premium, if any, paid on excess insurance. When the exact acreage of any crop insured is greater than the total acreage stated in the insured's application, the amount of insurance per acre will be determined by dividing the total amount of insurance applying to the crop by the total number of acres comprising the crop. If there is disagreement as to the correct acreage of any crop covered under the policy, the insured must furnish, without cost to the company, a survey made by a competent surveyor showing the exact acreage of the disputed crop.

17. Any cutting, digging, harvesting, or other reduction of the crop value for any reason except hail damage reduces the liability of the company proportionately.

18. In case of hail loss, the insured may not abandon the crop to the company.

19. Unless the crop can be reset, replanted, or regrown, the company pays the same per cent of the insurance as the hail damage bears to the insured crop value.

20. Within a stipulated period after crop damage from hail, if the loss exceeds the stipulated percentage, the insured must notify the company by registered mail of the policy number, the exact time of loss, any other hail insurance, and the probable loss percentage. Failure to give notice in exactly this form may release the company from liability. Should the loss be below the required percentage, the company is not only freed of liability, but the insured must also pay all expenses incurred in investigating the claim.

Minimum Loss and Deductible Clauses.—Many farmers desire protection only in case of heavy loss and do not desire coverage for slight damage. To meet these requirements the insurance company issues the following loss clause and deductible clauses: (1) 25% Minimum Loss Clause, (2) 10% Deductible, (3) 20% Deductible, (4) 25% Accumulative-De-

ductible Clause, (5) Premium Deductible Clause. Illustrations of adjustments under the various clauses will be shown subsequently.

1. **TWENTY-FIVE PER CENT MINIMUM LOSS CLAUSE.**—This clause provides that the company is not liable for any loss or damage by hail to the crops insured unless loss or damage or accumulation of loss or damage during the term of the insurance equals or exceeds 25% of the particular crop.

If the insured files a claim for loss or damage by hail only, and the loss or damage at the date of occurrence of the hail is less than 10% of the particular crop, the insured must pay to the company the expenses incurred in investigating the claim.

This latter provision also applies to the three clauses that follow.

2. **TEN PER CENT DEDUCTIBLE CLAUSE.**—In the event any crop insured is damaged or destroyed by hail only, there shall be deducted 10% of the total insurance under the policy applying to the particular crop so damaged. This deduction, however, applies only to the first loss that exceeds 10% of the particular crop so damaged, and does not abrogate the clauses applying to minimum loss in the policy.

3. **TWENTY PER CENT DEDUCTIBLE CLAUSE.**—If any crop insured is damaged or destroyed by hail only, 20% of the amount of insurance is deducted from the first loss only that exceeds 20% of the particular crop so damaged. This deduction does not abrogate the clauses applying to minimum loss in the policy.

4. **TWENTY-FIVE PER CENT ACCUMULATIVE-DEDUCTIBLE CLAUSE.**—Under this clause, the company is not liable unless the loss or damage, or accumulation of loss or damage during the term of the insurance, exceeds 25% of insurance. This deduction is made from the first loss or accumulated losses that exceed 25% of the particular crop so damaged. This deduction does not abrogate the clause applying to minimum loss in the policy.

5. **PREMIUM DEDUCTIBLE CLAUSE.**—This clause provides that in the event any crop covered is damaged or destroyed by

hail only, the maximum liability will not be in excess of the difference between the total liability on the kind of crop covered and the premium paid on that crop. The first loss or losses up to the amount of the premium paid on the kind of crop covered is borne by the insured. All losses, after the deduction of this premium, will be paid in full by the company. This endorsement does not abrogate the clauses referring to the minimum loss. If the insured files a claim for damage and the loss or damage caused by hail only is less than the amount of the premium paid on the kind of crop covered, then he must pay all the expenses incident to the investigation of the claim.

Premium Charge.—The cost of hail insurance per acre varies widely. One common rate might produce unsatisfactory results, as the hail hazard cannot be said to be similar throughout the country. Experience has been gathered by the companies, and rates formulated on the basis of type of crop and location of the risk. In addition, there is a limit per acre of liability assumed by the insurance company.

Adjustments.—Providing the crop is not grossly overinsured, market values in themselves are not considered in adjustment of hail losses. The only question of fact that arises in an adjustment of hail loss is the question of percentage of crop damage. If on the average in a certain field 20 stalks of wheat out of each 100 are damaged, this is considered a 20% loss for that particular acreage. This percentage is then applied to the amount of insurance applicable to the damaged portion and the result constitutes the amount payable under the policy. In the final analysis, therefore, the hail policy is a full 100% coinsurance form. In order to illustrate this principle, assume the following conditions:

40 acres of wheat insured at \$10 per acre (amount of insurance).... \$400.00
 10 acres damaged 60% by hail and the balance of the acreage not damaged.

Market value of an undamaged crop is \$15 per acre.

Adjustment of loss:

Total coverage on 10 acres at \$10 per acre.....	\$100.00
Damage.....	60%
Loss payable under the policy.....	\$ 60.00

To illustrate adjustment under the various clauses, assume a \$30,000 hail policy on a 100-acre apple orchard at \$300 per acre. The adjuster picks 4,000 apples which are analyzed as follows on the basis of United States standard grades from a hail-pick standpoint:

	No. of Apples	Percentage of Damage Allowed	Total Average
Hit but not damaged.....	100	—	—
Reduced by hail from U. S. No. 1 to No. 2	600	35%	210
Reduced by hail from U. S. No. 1 below No. 2 grade.....	2,000	70%	1,400
Reduced by hail from U. S. No. 1 to vinegar or evaporator stock.....	1,100	90-100%	1,100
Reduced by hail from U. S. No. 2 to vine- gar or evaporator stock.....	200	35%	70
Total apples.....	4,000	Grand total....	2,780

Under the standard policy, the average percentage of loss would be 69.5% ($2,780 \div 4,000$) and the amount payable \$20,850 (69.5% of \$30,000). The remaining insurance in force amounts to \$9,150.

Using the same facts for 10% deductible clause, 10% is deducted from 69.5% of the loss, leaving a loss payable of \$17,850 (59.5% of \$30,000). The remaining insurance is thus \$12,150.

Similarly, a 20% deductible clause would reduce the loss percentage to 49.5% and the amount payable to \$14,850, leaving \$15,150 insurance in force. Given a 25% deductible clause, the loss ratio is 44.5%, the company's liability \$13,350, and the remaining insurance \$16,650.

Finally, a 25% minimum loss clause provides for the full payment of the \$20,850 loss (69.5% of \$30,000), since the loss percentage exceeds 25%. The remaining insurance in force amounts to \$9,150.

In case the farmer is not satisfied with the company's adjustment, he has the privilege of calling in an inspector of the United States Department of Agriculture. If the inspector disagrees with the company adjuster, the company will pay the higher amount.

CHAPTER 10

LIVE STOCK INSURANCE

Need for Live Stock Insurance.—The need for protection against loss through the premature death of animals, such as cattle and horses, has always been recognized. As a result of this need, live stock insurance has been developed. Few insurance companies write this form of insurance. An important live stock insurance company uses the principles discussed in this chapter.

With the introduction of general live stock insurance, there has also been provided special insurance for race horses. Owners of expensive race horses no longer need fear heavy loss due to premature deaths of the animals.

Since the live stock policy is a form of life insurance, the animal must be in good health when proposed for insurance and in an insurable condition on the effective date of the policy. While animals will not be insured for more than their actual cash value, appreciation in value by reason of prize-winning performances may be given recognition by the company. Of the two important forms, Form No. 1 is used to cover such animals as race horses, saddle horses and polo horses, while Form No. 2 is used to cover such animals as cows and farm horses.

Form No. 1.—Under Form No. 1 each race, saddle, or polo horse must be fully described as to name, sex, age, color, sire, and dam. Upon approval of the application, the company insures each animal in accordance with the provisions which are given below:

COVERAGE.—Losses resulting from death caused directly by disease, accidental injury, fire, lightning, and windstorm anywhere within the boundaries of the United States or Canada are covered. Except as otherwise provided, protection contin-

ues during transportation by rail, ferry, or enclosed and properly equipped van type of motor truck.

VOLUNTARY DESTRUCTION.—Coverage of losses resulting from voluntary destruction of animals to relieve suffering is granted only under two special circumstances:

1. The company has given written consent signed by its general agent for destroying the animal, or
2. The animal is injured and destroyed on a public highway or at a race meeting or other public event. To bind the company, however, the destruction must occur within a stipulated number of hours after injury and then only after a local licensed veterinarian has certified the necessity of killing the crippled animal.

EXCLUSIONS.—No liability is assumed for the following losses unless specifically covered by endorsement obtained prior to the destruction of the animal or animals.

1. Where the animals are being transported in any type of motor truck especially constructed for transporting horses, that is, a regular horse van. The policy also permits the use of any ordinary open truck or trailer properly constructed for transporting horses, the four sides of which must not be less than six feet high and in which the horses are cross-tied, with a heavy rope hitched around the pole to prevent an animal from elevating the head higher than it is held in normal standing position. A further condition is that the insured must furnish suitable facilities for safe loading and unloading of animals.
2. Where the animal or animals are shipped by motor truck van for a distance requiring more than 18 hours' travel, unless the animals are unloaded at the end of each 12 hours' travel and are fed, watered, and rested for at least six continuous hours.
3. During transportation by aircraft.
4. The expense of removing or disposing of the remains of animals.

5. Depreciation in value of animals becoming unfit for duties intended.
6. Death of any animal put to any use other than stated in the application upon which the policy is based.
7. Death of animal not in absolute health when the policy was delivered.
8. Death caused directly or indirectly, by invasion, insurrection, riot, revolution, civil war or commotion, or military or usurped power.
9. Death of any animal which dies from an unknown cause if the insured fails to permit the company to have a post-mortem examination made by a veterinarian of its own selection and then only if the post-mortem report shows the cause of death to fall within the coverage of the policy.
10. Death of any animal caused directly or indirectly by the carelessness or neglect of the insured, his agent, employees, or bailees.
11. Death of any animal from injuries originating before the acceptance of the application, the issuance and delivery of the policy to the applicant and the premium paid.

LOSSES NOT COVERED EXCEPT BY ENDORSEMENT.—Unless otherwise provided by endorsement, the company is not liable for:

1. Death of any animal “unnerved” through the operation of neurotomy for lameness.
2. Death of an animal which has been castrated or fired, or subjected to any other operation during the life of the policy.
3. Deaths of animals used in polo, hunting, jumping, hurdlng, steeplechasing, point-to-point racing, or schooling for those uses.
4. Death of any animal turned out on pasture without daily supervision and care.
5. Death of any mare directly or indirectly from its use for breeding.

6. Destruction of any animal exposed to or contracting any contagious or communicable disease, whether or not the destruction is by order of the federal authority.

DUTIES OF INSURED.—The insured must comply with the following requirements:

1. On request, the insured must grant the company possession of such of the dead animal's organs, limbs, or tissues as may be required for preservation or evidential purposes.
2. If the animal's skin is punctured with a nail or wounds are otherwise incurred, the insured is required to have the animal immediately treated by the administration of tetanus antitoxin by a qualified veterinarian.
3. Upon the sickness or injury of an insured animal, the insured must employ at his own expense the services of a licensed veterinarian and use all means to preserve the life of the animal.
4. Notice of the animal's sickness or death must be sent immediately by telegraph to the company at its designated office. This notice must specify the number of the policy, the name of the animal, the cause and time of its illness or death, and the name and address of the veterinarian in attendance.
5. Except when required by law or ordinance, the insured may not dispose of the animal's carcass before the company has examined the carcass or given permission for its disposal.

SWORN STATEMENTS OF LOSS.—The insured must submit a sworn statement of the following facts within a specified period, such as 30 days, unless extended in writing for the company;

1. Cause and time of death according to the knowledge and belief of the insured.
2. The use to which the animal was put up to the time of injury or death.
3. The date and form of the first notice sent to the company of the sickness or death of the insured animal.

4. The company's representative, if any, who identified the animal.
5. Disposition of the carcass.
6. The interest of the insured and all others in the animal and its cash value at the time of illness or death.
7. The name and address of the vendor from whom the insured purchased the animal and the date and cost of acquisition.
8. All other insurance on the animal, whether valid or invalid.
9. A full history of the animal's sickness or injury, including the date of discovery and the age and exact location of the animal at the time; a complete description of the markings and color of the animals; the names and addresses of veterinarians in attendance; and the dates of their first and subsequent visits.
10. Nature and dates of operations undergone by the animal during and prior to the policy period.

This signed statement of the insured must be accompanied by a signed and sworn statement by the attending veterinarian regarding the following facts:

1. Day and hour of his first visit in connection with the sickness or injury which led to the animal's death.
2. Number and dates of his subsequent visits.
3. Exact time of death.
4. Complete description of mortal illness or injury and whether caused by the way the animal was housed or nursed.
5. All important medical facts connected with the case, including other diseases complicated with the illness or injury causing death.
6. Operations of which there was evidence.
7. Apparent age, sex, height, color, and markings of the animal.
8. If the veterinarian held a post-mortem examination of the animal, the date and a detailed accounting of his findings must be given.

In addition, the insured must furnish affidavits by disinterested persons of identification of the carcass, in the event that no representative of the company has viewed it.

OTHER INSURANCE.—Unless provided by endorsement, procurement of other insurance, whether valid or invalid, voids this policy. When the company has given consent to other insurance on the animals, however, the company's liability is limited to that proportion of the loss which the amount of the policy bears to total insurance, irrespective of whether the other insurance is valid and written by solvent companies or not.

TITLE.—The unconditional and sole ownership is an express condition of the contract. Furthermore, the company is not liable, unless otherwise provided, under these conditions:

1. Assignment of the policy before loss.
2. Animals encumbered by chattel mortgage.
3. Title in dispute or subject to litigation.
4. Any change, except by death of the insured, in interest, title, or possession, whether by voluntary action of the insured or by legal process or judgment.

MEASURE OF LIABILITY.—The company's liability is limited to the lower of the following amounts:

1. The amount for which the animal is insured in the schedule attached to the policy.
2. Actual cash value at the time of loss.

Form No. 2.—This live stock policy contains similar provisions applicable to such animals as cows and farm horses.

COVERAGE.—Losses resulting from death caused by disease, accidental injury, fire, lightning and windstorm are covered when occurring on the premises or temporarily elsewhere in the vicinity of the premises described in the policy. Liability may be extended by written endorsement for losses from death taking place anywhere within the limits of the United States or Canada.

In addition to these two forms described, several others are available to meet special needs, known as the herd insurance

policy, the deductible policy, the foaling policy, and the exhibitors' and breeders' policy.

HERD INSURANCE.—As an alternative to specific insurance on individual animals for designated amounts, an entire herd may be covered in one policy. Thus, a single policy may be purchased for a commercial dairy herd; a breeding herd of pure bred, grade dairy or beef cattle; or a breeding herd of pure bred or grade horses.

DEDUCTIBLE POLICY.—For owners of large herds, a policy may be written with a deductible clause, under which the insured assumes a percentage of the liability. This clause may apply to each animal described or to animals grouped under a blanket form of contract with average limits per head. If preferred, a combination of specific and blanket coverage may be obtained.

THIRTY-DAY FOALING POLICY.—The policy is a full mortality contract, including death resulting from foaling or abortion for a term of 30 days, commencing on the day the mare begins to foal and expiring on the thirtieth day following. The maximum insurance granted usually is 75% of the animal's value. The application for insurance must reach the home office at least 15 days prior to the expected date of foaling.

EXHIBITORS' AND BREEDERS' POLICIES.—Two forms are available. One form protects exhibitors and breeders against the loss incurred by the death of animals resulting from fire, lightning, windstorm, and tornado. The animals are covered wherever they may be within the limits of the United States and Canada, whether inside or outside fair or other buildings or in transit by rail, ferry, transport, or properly equipped motor vehicle.

The second form is wider as it covers losses resulting from fire, lightning, windstorm, tornado, and death by external, accidental, and violent means only of animals, excluding polo horses, race horses, hunters, jumpers, and steeplechase horses.

In contrast to the full mortality policy, the exhibitors' and breeders' policy forms do not cover death from disease and hence do not require a veterinary's certificate.

CHAPTER 11

MARINE INSURANCE

Branches of Marine Insurance.—When a boat is sent to sea or a cargo is shipped, there are dangers of loss due to many causes in connection with that venture. Marine insurance has been developed to meet such of these losses as are occasioned by the hazards of the seas and other perils mentioned in the policy.

Three distinct branches of marine insurance are available to meet respectively loss of cargo, hull, and freight charges.

Cargo Policies.—To meet the various needs of business firms which send a few shipments per year and those extensively engaged in shipping, three types of cargo insurance policies have been devised, known as the special policy, the open or floating policy, and the blanket policy.

Special Policy.—If a business concern makes few shipments throughout the year, a policy may be obtained for each shipment, naming the boat upon which the shipment is to be sent and the limits of the voyage. The following essential information is required by the insurance company before the policy may be issued:

1. Commodity to be shipped.
2. Name of vessel.
3. Place from where the commodity is to be shipped, and where the commodity is to be delivered.
4. Packing to be used for the shipment.
5. Value of shipment and amount of insurance desired.

Open Policy.—If a merchant makes many shipments during the course of a year, the practice is to procure an open cargo policy. Under this form of policy, the insurance company agrees to insure all shipments on and after a certain date, subject to certain voyage limitations. Every shipment is covered,

the only requirement being that every one be declared to the insurance company at the time of shipment, or as soon thereafter as possible. A premium is charged for each shipment and a statement of premiums is rendered monthly. The policy is usually written limiting the liability of the insurance carrier to a fixed amount for shipments on any one vessel, or in any one place at one time. Under this form, if a shipment is on a steamer before the insured receives advice, the shipment is automatically covered. The only requirement is that the insured notify the insurance company as soon as he receives information concerning the shipment.

The application for the open policy must contain the following essential information :

1. Commodities to be insured.
2. Value of annual shipments, based upon past records of the applicant.
3. Probable maximum amount on any one vessel or in any one place.
4. Principal countries from which shipments are received or to which shipments are sent.
5. Percentage of shipments to and from the various principal countries.
6. Methods used to pack shipments.
7. Steamship lines used to carry goods.
8. Past loss experience.
9. Coverage desired.

Blanket Policy.—This policy is used where many shipments are made by firms engaged in coastwise and inland trade. It is similar to the open policy, except that an estimate is made of the premium to be earned by the insurance company during the course of the year. The premium is usually paid in advance. The policy may provide that in case a loss occurs the liability of the insurance company is reduced, and an additional premium must be paid in order to restore the insurance company's liability on the policy.

Form of the Policy.—Policy forms for marine insurance have not been standardized by statute. The legislatures of this

country have not passed laws requiring uniform provisions. The reason for this may be said to be the international competition that exists in connection with this business. This branch of insurance is written all over the world, and to standardize the requirements of the various policies would be difficult. The policies used at the present time have developed from the original policy established by Lloyd's. This organization will be described later in Chapter 24, "Types of Insurance Carriers."

Coverage under the cargo policy is determined by the provisions and modern extensions of the basic policy as modified by endorsements extending or limiting coverage.

Basic Policy Provisions and Modern Extensions.—The provisions that may be found in the basic policy are:

1. **THE INSURED.**—The policy usually provides for payment of loss to the insured or his order upon surrender of the policy. In the event that the goods have been sold or pledged, no deduction is made for unpaid premiums as against purchasers or pledgees.

2. **VESSEL AND MASTER.**—If the policy is written for a single trip, the name of the vessel must be given. The basic policy also has a space providing for the name of the master, but this space is seldom used.

3. **COVERAGE FROM PORT TO PORT.**—Coverage begins from the time the merchandise is loaded on board at the port of shipment and continues until the goods are safely landed at the port of destination. If forced by stress of weather or other unavoidable accident, the vessel may sail to and remain at any port or other place without prejudice to the insurance.

4. **VALUATION.**—Unlike common practice in most forms of property insurance, cargo values must of necessity be determined in advance. Valued policies avoid the possibility of litigation when losses occur in distant ports. In case of loss, the valuation stated in the policy is the basis upon which the loss is determined. The goods are usually valued at cost or F. O. B. invoice value plus all charges expected to be incurred to send

the goods to destination including insurance premium plus a specific percentage which represents incidental charges and a part return on the money outlayed for the venture. Valuation may be expressed in terms of domestic or foreign currency or unit values.

5. PERILS COVERED.—The policy covers losses caused by perils of the seas, men-of-war, fires, enemies, pirates, rovers, thieves, jettisons, letters of mart and countermart, reprisals, barratry of the master and mariners, takings at sea, arrests, restraints, or detainments of any kings, princes, or people, and all other perils.

A word of explanation regarding two of the less obvious terms may be helpful. By jettison, as covered in the policy, is meant throwing overboard part of the cargo or ship in order, for example, to move the vessel off strand or to save the vessel from sinking.

Conversion of the goods of others to their own use or any willful act of waste against the owner by master or employees of the ship are termed barratry.

The words "and all other perils" refer not to all perils, but only to perils which are of like kind to those specifically enumerated in the perils clause.

In general, all the perils as described may therefore be divided into three groups:

- (a) Perils of nature or the elements including fire.
- (b) Perils arising from the acts of those on board the vessel.
- (c) Perils arising from the acts of those not on board the vessel.

6. SUE AND LABOR.—In the event of any loss or misfortune, the insured, his factors, servants, and assigns are required to sue, labor, and take other steps to defend, safeguard, and recover the property. Acts of the insured or insurers, in recovering, saving, and preserving the property are not considered as a waiver or an acceptance of any abandonment. The expenses are recoverable in addition to the losses of cargo that have been suffered.

7. **PREMIUM.**—The rate for a specific shipment is fixed in advance. The rate for shipments under an open policy depends upon the vessel and the nature of the risk. The insured must report every shipment on the day he receives notice of the shipment or as soon thereafter as practicable.

8. **AVERAGE CLAUSE.**—Insurance companies limit the minimum amount for which they may be responsible in a partial loss. A partial loss of a particular interest which occurs from one of the perils designated in the policy such as damage by sea water is called a particular average loss. The average clause provides that a partial loss will not be paid by the company unless the loss is equal to a specified minimum as 5%. The purpose of the average clause is to eliminate the cost of the settlement of small losses.

9. **MEMORANDUM CLAUSE.**—The memorandum clause restricts the liability on the company on certain articles or types of articles and excludes losses due to certain causes. The clause generally sets forth the conditions under which various and sundry articles will be covered thus making the policy applicable without endorsement to almost any risk.

The clause provides that the following articles are warranted by the insured free from average, unless constituting a general average loss, which is a sacrifice voluntarily made in order to save the entire venture from destruction :

Bar, bundle, rod, hoop, and sheet iron, wire of all kinds, tin plates, steel, madder, sumac, wicker-ware and willow (manufactured or otherwise), salt, grain of all kinds, tobacco, Indian meal, fruits (whether preserved or otherwise), cheese, dry fish, hay, vegetables and roots, rags, hempen yarn, bags, cotton bagging, and other articles used for bags or bagging, pleasure carriages, household furniture, skins and hides, musical instruments, looking-glasses, and all other articles that are perishable in their own nature.

Unless general average the insured warrants hemp, tobacco stems, matting, and cassia, except in boxes are free from average under 20%. Similarly, unless general average sugar, flax, flaxseed and bread, are free from average under 7%, and rice,

coffee, or pepper in bags or bulk, are free from average under 10%. General average will be explained subsequently.

The company is not liable for losses from dampness, change of flavor, or becoming spotted, discolored, musty, or mouldy, except as a result of actual contact of sea water with the articles damaged, occasioned by sea perils. In the event of partial loss by sea damage to dry goods, cutlery, or other hardware, the loss is ascertained by a separation and sale only of the portion of the contents of the packages so damaged. In so far as practicable, the practice is followed for all other merchandise. The company is not liable for leakage of molasses or other liquids unless occasioned by stranding or collision with another vessel.

Although the memorandum clause is present in the policy it is frequently not used, since the practice is to adapt the policy by special clauses for the commodity or class of commodity to be insured. Special clauses will be discussed in this chapter.

10. OTHER INSURANCE.—If other insurance on the cargo antedates the policy, the issuer of the latter is liable only for that amount not covered by the older policies. When, on the other hand, other insurance is taken subsequent to the date of the policy, the issuer of the earlier policy is liable for the full amount of the policy, without right of contribution from subsequent issuers. Insurance purchased on the same day (which is called simultaneous insurance), however, limits each company's liability to that portion of the loss which its policy bears to total simultaneous insurance.

11. ILLEGAL VENTURE.—The company is not liable for loss in consequence of seizure or detention of articles on account of any illicit or prohibited trade, or which are regarded as contraband of war.

12. ABANDONMENT.—The insured is required not to abandon the property in case of capture, seizure, or detention, until after condemnation of the cargo, or until a stipulated period after notice of condemnation is given to the company. In case of blockade, he must not similarly, abandon the cargo, but is at liberty to proceed to an open port and there end the voyage. The

company is not liable for any expenses incurred as a result of capture, seizure, detention or blockade.

Modern Extensions.—To meet various conditions the basic cargo policy has been modified by additional clauses. These additional clauses, if inconsistent with any provision of the policy previously discussed, govern, nevertheless, the liability of the company. The following are some of the clauses added to the basic cargo policy:

1. **WAREHOUSE TO WAREHOUSE.**—Cargo is covered from shippers' or manufacturers' warehouse until safely deposited in consignees' or other warehouse at the destination named in the policy. Protection is thus provided for the goods until on board ship, during transshipment, and while on quays and wharves and in sheds until the point of destination is reached, and makes it unnecessary for the owner of the merchandise to arrange special insurance for the trip from the warehouse to the steamer or vice versa or to arrange for fire insurance while the merchandise is temporarily stored at some point during venture. Under this clause the ocean contract covers anywhere during the voyage while the goods may be considered "in due course of transit."

2. **LIGHTERAGE.**—The lighterage clause extends coverage to include transit by craft, raft, or lighter to and from the vessel.

3. **LAND RISKS.**—When the policy covers the risk on railroad, dock, wharf, quay, or elsewhere on shore, the company is liable for loss caused by fire, collision, derailment, cyclones, hurricanes, earthquake, flood that is rising of navigable waters, or other accident to the conveyance or by collapse of subsidence of docks. The clause is naturally used in conjunction with the warehouse to warehouse clause mentioned above.

4. **DEVIATION.**—The insurance is not voided despite change or deviation of voyage, or other variation of the risk by reason of the exercise of any liberty granted to the ship owner or charterer under the contract of affreightment, or as a result of error or omission in the description of the interest, vessel, or voyage.

5. **TRANSSHIPMENT.**—By this clause the company is liable for the goods shut out or transferred to another vessel provided written notice is given to the company as soon as known to the insured, and an additional premium is paid if required.

6. **DELAYED DELIVERY.**—In the event that the goods, either wholly or in part, are discharged short of or carried beyond the port of destination, the company will continue coverage until final arrival and delivery of the goods at their proper port of destination and delivery. Written notice must be given the company as soon as known and an additional premium be paid if required.

7. **CARRIER LIABILITY.**—The company is not liable: (a) where the goods are in the possession of any land or water carrier or other bailee who may be liable for such loss or damage by law, or under an insured bill of lading, or under freight rate that includes insurance; and (b) where the goods are shipped under a bill of lading containing a provision that the carrier may have the benefit of the insurance.

8. **OTHER FIRE INSURANCE.**—The company is not liable to the extent of any fire insurance provided by the insured, any carrier, or other bailee which would attach, at the time of the fire, if the marine policy had not been issued.

Under the carrier liability and other fire insurance clauses, the company will assume liability for its proportion of any loss for which it would be liable in the absence of these clauses to an amount not recoverable from third parties if the marine insurance did not exist, and for its proportion of expenses incidental to such loss.

9. **NEGLIGENCE OR LATENT DEFECT.**—The insured is not prejudiced by the presence of the negligence clause or latent defect clause in Bills of Lading or Charter Party. The seaworthiness of the vessel as between the insured and the insurers is admitted. The wrongful acts of the shipowner or his servants does not terminate coverage if the loss in the absence of such wrongful act or misconduct would have been a loss recoverable on the policy.

10. **LOSS OF MARKET.**—The company is not liable for loss of market or damage or deterioration resulting from delay, whether or not caused by a peril covered by the policy.

11. **RETURNED AND USED GOODS.**—Returned and used goods are insured free of particular average, that is, excluded from coverage, except as caused by stranding, sinking, burning, or collision with another craft and free of claim for theft, pilferage, or non-delivery of cargo, unless otherwise agreed before shipment.

12. **THEFT, PILFERAGE, AND NON-DELIVERY.**—Unless otherwise specially provided for, the company is not liable for the risks of theft, pilferage, or non-delivery.

13. **BREAKAGE.**—Breakage is not covered unless caused by stranding or collision with another vessel, unless otherwise specially provided.

14. **LABELS, CAPSULES, WRAPPING.**—If the policy covers labels, capsules, or wrappers, the company's liability is limited to an amount sufficient to pay the cost of new labels, capsules, or wrappers and reconditioning the goods.

15. **DRY GOODS AND HARDWARE CLAUSE.**—Where claims for damage to goods or hardware, exceeds 15%, the company has the privilege of settling upon the basis of a salvage loss by paying to the insured the sum insured, plus freight and duties.

16. **MACHINERY CLAUSE.**—In case of claim on machinery the liability of the company can not exceed the insured value of the part lost or damaged plus the cost of forwarding the replacing part to destination.

17. **GENERAL AVERAGE AND SALVAGE CHARGES CLAUSE.**—A general average loss is a voluntary sacrifice or extraordinary expense made in the face of impending danger on the part of one or more interests in a common venture for the purpose of and resulting in the saving of the entire venture as, for example, when part of the cargo is jettisoned, that is, thrown overboard to lighten the ship in distress to save the venture from disaster. Since this sacrifice may prove beneficial to the owners

of ship and cargo and those entitled to freight revenue, the parties benefited must contribute toward payment of the loss.

Furthermore, in the marine field there is a law independent of insurance, which establishes the right of anybody who saves a distressed or abandoned vessel to claim salvage. General average and salvage charges are covered by the cargo policy.

18. **EXPLOSION CLAUSE.**—The company is liable for losses and expenses resulting from explosion, unless caused by perils excluded by the free of capture and seizure, war, riot, and civil commotion clauses as explained subsequently.

19. **WAR RISKS AND STRIKES, RIOTS, AND CIVIL COMMOTION EXCLUSION.**—The company is not liable for loss on account of men-of-war, enemies, letters of mart and countermart, reprisals, takings at sea, arrests, restraints, and detainments of ruler or peoples of any nation. There is no coverage on account of capture, seizure, damage, or destruction, or any attempt thereat, by hostile forces, or officers or other persons acting in the name of belligerents, or in the prosecution of hostilities, or in pursuing warlike operations, whether before or after declaration of war.

The company is not liable for loss on account of riots, civil commotions, civil war, revolt, revolution or other armed opposition to government.

The company is not liable for loss caused by strikers, locked out workmen, labor riots, or persons taking part in labor disturbances.

The company is not liable for claim on account of seizure, condemnation, preemption, confiscation, or the taking of property with or without compensation by any government or by any persons purporting to exercise governmental authority.

20. **INDEMNITY FOR CONNECTING CONVEYANCE CLAUSE.**—The company is not liable for more than a specified amount on any vessel or by one usual connecting conveyance or in any one location. The limitation of liability does not affect transfers from two or more vessels to the same connecting vessel at a transshipping point. In the event of the transfers the company is liable for the entire amount at risk but frequently not for

more than a maximum amount as, for example, twice the limit of liability provided by the policy.

With respect to this clause, the insured agrees to use all reasonable means to obtain information of such cumulative liability prior to the sailing of vessel and furnish such information to the company as soon as known to him.

21. GOODS ON DECK.—The policy is extended to cover partial or total loss of goods laden on deck caused by stranding, sinking, burning, or collision with another vessel or the total loss of the whole or part by jettison or washing overboard. No other risks are covered on goods so laden, unless specifically included as applying to shipments on deck. The company's liability for losses from these causes is limited to a stated amount unless otherwise provided. The insured must take separate declarations for goods so laden.

Extension and Limitation Endorsements.—The basic policy covers perils which are strictly of the seas and the modern extension clauses were developed to meet various situations. This basic policy is probably the nearest approach to a standard form. The extension clause modified the company's liability. However, the swift growth of large-scale commerce and transportation made it very necessary that insurance contracts should develop special clauses to meet the needs of merchants and also that these insurance contracts should reflect the increased facility and efficiency in handling goods. Therefore, the basic policy and modern extensions as described may be modified by various endorsements such as the following which extend or limit the coverage.

1. F. P. A. CLAUSE.—Reduced premium rates may be obtained when the company is not liable for partial sea losses unless due to certain stated causes, by the attachment of a Free of Particular Average Clause. The two principal forms of this clause are the American and the English clauses known respectively as F. P. A. A. C. and F. P. A. E. C.

The American form reads "Free of particular average unless caused by stranding, sinking, burning, or collision with another vessel."

The English form reads "Warranted Free from Particular Average unless the vessel or craft be stranded, sunk, or burnt."

Since these clauses provide very restricted coverage they are not very common, though they are used to insure very hazardous commodities.

2. "WITH AVERAGE" CLAUSE.—In contrast with the F. P. A. clauses mentioned above, the "With Average" Clause provides that the insurers will pay for partial losses from sea perils if amounting to a certain percentage, for example, 3%.

3. AVERAGE IRRESPECTIVE OF PERCENTAGE CLAUSE.—If this clause is attached to the policy, the company is liable for particular average losses irrespective of percentage.

4. NAMED RISKS CLAUSE.—Merchants desire protection for losses of cargo during shipment wider than the perils of the sea. Therefore, the "With Average Clause" can be extended by the attachment of the named risk clause to meet the needs of particular shipments of various commodities. For example, the clause can provide coverage for partial loss due to contact with fresh water, fuel oil, other cargo, and steam and sweat of hold. Another illustration of this clause is in connection with the shipment of commodities, such as rugs, where the perils include heat, sweat, mold, hookholds.

5. THEFT AND PILFERAGE CLAUSE.—The risk of theft was excluded as previously described. To meet this risk underwriters will include a clause to cover the risks of theft and also pilferage, and non-delivery. Such coverage is, of course, often used for shipments of clothing, rugs, piece goods, and articles because the goods are useful and easily sold by thieves.

If the endorsement is attached to the policy, coverage includes the risk of theft, pilferage, and non-delivery, irrespective of percentage. The risk of non-delivery is subject, however, to the following conditions: (a) In the event of non-delivery or loss during transit of any package through the fault of the carrier, the company is liable for the difference between the insured value of the goods and any amount which the insured may be entitled to recover under the bill of lading. (b) The extent of the company's liability is not changed by any clause

in any bill of lading whereby the liability of the carrier is limited to a specified amount.

6. **BREAKAGE CLAUSE—LEAKAGE CLAUSE.**—Shippers of commodities such as glassware, china, oil, molasses, and liquors may suffer loss due to breakage or leakage. The risk for breakage was limited as stated previously, but that limitation can be avoided by endorsement. The breakage endorsement provides that coverage includes the risk of breakage however caused, irrespective of percentage.

Loss due to leakage was also limited. The effect of the leakage clause is to extend coverage to include leakage however caused, irrespective of percentage.

7. **DEDUCTIBLE AVERAGE CLAUSE.**—In order to limit the liability against small losses when clauses such as breakage or pilferage are used, an endorsement may be attached providing for a deductible average of for example one-half of 1%, each shipping package being separately insured.

8. **ALL RISK CLAUSES.**—An analysis of the various clauses attached indicate that the policy can be extended to cover many and sundry perils in addition to those covered by the basis policy. Very wide coverage can be obtained by the attachment of the All Risk Clause.

The effect of this clause is to extend coverage to include all risks of physical loss or damage from any external causes irrespective of percentage. This clause does not cover those risks excepted by the free of capture and seizure, strikes, riots, and civil commotions clauses described in this chapter.

9. **DUTY CLAUSE.**—As stated previously, the valuation of the insurance includes the cost plus certain additional amounts. If the duty clause is attached, the policy covers loss sustained on duties paid on the merchandise by reasons of perils insured against but subject to policy terms of average. At the request of the insurance company, the insured must surrender any portion of the merchandise to the customs authorities and recover the duties thereon as provided by law. In that event the claim for loss of duties is only for a total loss of that portion of the merchandise at the insured value and expenses.

10. FREIGHT CLAUSE.—If this clause is attached to the policy, the company in case of partial loss will pay the same per cent of loss on freight payable upon delivery of the merchandise as it is liable for on the merchandise insured. The company is free from claim on freight for general average and free from any claim unless the freight upon arrival has become due.

11. WAR RISK AND STRIKES, RIOTS AND CIVIL COMMOTIONS CLAUSE.—The basic policy as set forth previously in the chapter included coverage for warlike operations, etc., of all kings and princes as well as piracy, and men-of-war. Nowadays, however, a clause appears in the policy extensions called the F. C. & S. S. R. & C. C. clause (Free of Capture and Seizure, Strikes, Riots and Civil Commotions) deleting from the policy the War and Strike Riot and Civil Commotion coverage. Such coverage may be obtained by endorsing the policy in such a manner and to such an extent as the underwriter may deem advisable under prevailing circumstances by the use of the following clause.

War Risk Clause. This clause provides coverage for the risk of capture, seizure, destruction, or damage by men-of-war, piracy, takings at sea, arrests, restraints, and detainments and other warlike operations and acts of rulers and peoples in the prosecution of hostilities or in the application of sanctions under international agreements whether before or after the declaration of war and whether by belligerents or otherwise, including factions engaged in civil war, revolution, rebellion, or insurrection or civil strife arising therefrom. The coverage includes the loss due to aerial bombardment, floating or stationary mines, and stray or derelict torpedoes.

The policy does not attach to cargo: (a) prior to being laden on board an overseas vessel; or (b) after being discharged overseas from an overseas vessel at the final port of discharge or after the expiration of 15 days, counting from midnight of the day on which the overseas vessel is safely anchored or moored at the final port of discharge, whichever occurs first; or (c) at a port or place of transshipment to another overseas

vessel after the expiration of 15 days (counting from midnight of the day on which the overseas vessel entering with the cargo is safely anchored or moored) until the cargo is on board on the oncarrying overseas vessel. If the shipowner or charterer has the liberty under the contract of affreightment to terminate the voyage at a port or place other than the destination named therein, such port or place is deemed to be the final port of discharge for the purpose of this clause.

The insured cannot abandon the property on any ground (other than physical damage to the ship or cargo) until after condemnation of the property insured. In the event of blockade, the insured is at liberty to proceed to an open port and there end the voyage. Claims for loss or damage are not subject to any condition of average which may be contained in the policy or any endorsement.

The company's liability under this clause does not include losses or expense due to:

- (a) Delay, deterioration, and loss of market.
- (b) Blockade or attempting to evade the blockade.
- (c) Capture, seizure, restraint, detainment, or condemnation by the federal or any state government of the United States.
- (d) Commandeering, preemption, requisition, or nationalization by the government de facto or otherwise of the country to or from which the goods are insured.
- (e) Seizure or destruction under quarantine or custom regulations.

Strike, Riot, and Civil Commotion. The strike clause includes damage, theft, pilferage, breakage, or destruction of property resulting from strikes, riots, civil commotions, lock-outs, or other labor disturbances and destruction or damage of property caused by persons acting maliciously. Claims for delay, deterioration or loss of market and the risk of confiscation or destruction of the property by civil war, revolution, rebellion or insurrection, or civil strife arising therefrom are excluded.

Marine Insurance Certificates or Special Policies.—An owner may transfer the insurance on goods shipped under an open policy by obtaining a certificate or special policy, which may then be used as collateral with a bank or assigned to the new owner of the goods.

Hull Policies.—The following essential information is required before a marine insurance policy is issued on a hull:

1. Name of the vessel.
2. Description of the vessel.
3. Survey of the vessel, that is, the report giving details concerning the sea-going condition of the vessel.
4. The trading route of the vessel.
5. The types of commodities carried by the vessel.

Hulls are insured either for a specific period of time or for a voyage. Generally the provisions of hull policy forms are similar. In order to meet varying conditions, however, special types of policies have been developed for such crafts as tugs, yachts, barges, and vessels on the Great Lakes. Policies are also issued to cover the risk attendant on vessels when they are laid up in port.

Freight Policy.—If a boat or cargo is damaged or lost, there may be a loss of revenue chargeable for carrying the cargo. Protection against this loss is provided by a freight policy. If a boat is under charter, the charterer must obtain such a policy. If the freight is paid in advance by the shipper, he should protect himself by including the charges in his cargo policy.

Protection and Indemnity Insurance.—When one vessel collides with another vessel or with a dock, the liability of the owner of the boat causing the collision may be covered by a collision clause in the hull policy. Partial protection against property damage, loss of life, and personal injury not covered by the collision clause of the hull policy may be obtained by protection and indemnity insurance.

Builders' Risk Policy.—Concerns engaged in the construction of ships are faced with such serious hazards as fire and

breakage of ways. Similar hazards occur while hulls are being repaired. The builders' risk policy provides protection against these risks.

Premium Charges.—The premium charges in marine insurance are, to some extent, based upon judgment founded upon experience. Scientific development of a standard tariff such as obtains in the case of fire insurance is impractical. Fire insurance rates are generally subject to state regulation; for, in order that a fire insurance policy may be legally issued in any state, the company must obtain permission to do business in that state. In the case of marine insurance, however, since hulls navigate all over the world, the cargo owner and hull owner can obtain insurance at any port they desire. The companies writing the policies may not be within the jurisdiction of the state, and hence beyond state regulation. Furthermore, international competition militates against the development of a standard rate. There are, nevertheless, certain fundamental considerations.

Cargo Rates.—The following factors are considered in determining the rates for the cargo:

1. Susceptibility of the commodity to damage.
2. Nature of packing.
3. Dangers of the route.
4. Character of the boat.

Hull Rates.—The following factors are considered in determining the rate for a hull:

1. The owner's past record on the high seas.
2. Danger of the route. In order properly to determine the rate, the danger of fog, storms, low water, ice, and other dangers that may be encountered on the high seas must be considered.
3. Kind of cargo to be carried. Certain cargoes are more hazardous than others.
4. Fitness of the vessel for the trip. Whenever a boat is constructed the owner of the vessel is concerned with the future rating of his vessel. The marine insurance

companies use registers prepared by bureaus classifying boats. These registers contain information concerning the construction of the boat, which, in turn, will determine the fitness of the vessel for any trip to be undertaken.

5. The length of the voyage.

Requirements for General Average Loss.—As stated previously, general average losses are covered by the policy. A general average loss is valid, however, only when the following requirements are met:

1. The sacrifice made must have been voluntary and necessary.
2. The result of the sacrifice must have been successful; that is, the venture must have been saved from the threatened disaster. The following procedure is used in settling a general average loss: When the vessel arrives at a port, a personal bond must be furnished by everyone who would have to contribute to cover the possible charges that may be made in the adjustment or a cash deposit is required, or in some cases the adjusters will accept the guaranty of the insured's marine insurance company.
3. Adjusters, usually appointed by the owner of the vessel, make a valuation of all the interest that has been saved.
4. Contribution is based upon the following considerations:
 - (a) The value of the vessel is the value at the port of arrival, minus any expenses that have been incurred in connection with repairs since the loss occurred.
 - (b) The goods are valued at the wholesale price at the point of destination, in their present condition, after deducting landing expenses and any charges which are payable to make the goods marketable.
 - (c) The value of the freight is obtained from the bills of lading or charter.

The adjuster determines the loss by making a survey of the boat and the goods. After the amount of loss through the general average sacrifice has been determined, the owner of the

boat, the cargo, and freight must then contribute in proportion to the respective values. The following is a theoretical example of a general average loss:

	Valuation
Boat.....	\$ 500,000
A's Shipment.....	50,000
B's Shipment.....	200,000
C's Shipment.....	100,000
D's Shipment.....	145,000
Freight Revenue.....	5,000
	<hr/>
	\$1,000,000

Goods belonging to A, amounting to \$10,000, were thrown overboard. These goods were sacrificed in order to save the vessel from sinking. The loss would be adjusted as follows:

Total value of vessel, goods, and freight.....	\$1,000,000
Valuation of goods lost.....	10,000
Percentage of loss.....	1%

Contribution to this loss would then be as follows:

	Value of Property	Amount Contributed
Vessel.....	\$ 500,000	\$ 5,000
A's Shipment.....	50,000	500
B's Shipment.....	200,000	2,000
C's Shipment.....	100,000	1,000
D's Shipment.....	145,000	1,450
Freight Revenue.....	5,000	50
	<hr/>	<hr/>
	\$1,000,000	\$10,000

The general average adjustment is entirely independent of insurance. Whether the boat owner or shippers were insured or not they must contribute to all general average losses. The general average costs that may be awarded against a ship owner or cargo owner are covered by the marine insurance policy in the absence of a restrictive clause.

Adjustment of Claims.—In order to establish a claim in case of loss, the insured must prove the loss and prove an insurable interest. The cause of the loss is frequently proved by a statement of the master and crew, technically called the protest. The carrier should be notified and the loss should be de-

terminated as soon after the cargo is discharged from the vessel as possible. Notice must be given to the insurance company so that its surveyor may ascertain the loss. The duty of the surveyor is to determine:

1. The cause of the damage.
2. The extent of the damage. If the surveyor and the consignee cannot agree upon the depreciation of the cargo, the cargo may be sold at auction.
3. The gross sound market value at the port of destination. If the value is determined on the basis of goods sold "on time," he must advise concerning the term of credit and the discount for cash.
4. Any expenses involved in handling and disposing of the goods, including the cost of the survey.

CHAPTER 12

INLAND MARINE INSURANCE

Marine insurance was first designed to protect property on the high seas. It was later extended to protect property in the course of transportation not on the high seas. For this development the term "Inland Marine Insurance" is used. The various policy forms are generally called floaters because they may cover the goods insured at various locations. The practices in this field of insurance are not completely standardized.

Types of Inland Marine Policies.—The following are important policy groups included under inland marine insurance:

1. Transportation floaters.
2. Floaters covering personal property.
3. Floaters covering property and equipment of commercial enterprises.

Transportation Floaters

Forms of Transportation Floater.—The following are illustrations of the transportation forms:

1. Inland transit.
2. Annual transportation.
3. Motor truck shipper.
4. Motor truck carrier.
5. Trip transit (single trip).
6. Parcel post.
7. Registered mail.

Inland Transit Policy.—This policy is a basic form and may be used to cover a wide variety of transportation risks. For example, the form can be used by concerns which ship merchandise to various parts of the country.

The policy provides protection against loss or damage to merchandise, including packages, whether owned by the insured,

held on commission or consignment, or held in trust. Coverage is also provided for goods sold but not delivered and for goods on which advances have been made.

MEASURE OF LIABILITY.—Goods are valued at the amount of invoice, if there is any. In the event there is no invoice the goods are valued at the cash market value on the date and at the place of shipment.

Liability is limited to a specific amount for any one casualty either in case of partial or total loss, salvage charges, other charges, or all expenses combined.

Provisions of the form are :

1. The company is liable under the policy for merchandise while in transportation anywhere within the limits of the continental United States and Canada.
2. In event of loss or damage to part of a machine or other article consisting of several parts, the company is liable for the value of the lost or damaged part.
3. If labels, capsules, or wrappers are lost or damaged, the company is responsible for an amount sufficient to pay the cost of new labels, capsules or wrappers and to re-condition the goods.
4. In case of disagreement as to amount of loss, the policy provides for the appointment of appraisers and by them of an umpire as in fire insurance.
5. As in marine insurance, the policy is subject to the sue and labor clause.
6. The insured is not permitted to relinquish or limit his rights against any carrier, bailee, or other party liable for damage to the insured party.
7. The company is not liable for any loss settled without the consent of the company.
8. When the insurance company has paid a loss or advanced or loaned money, the insured must at the request of the company make claim and institute legal proceedings against any parties believed liable. The insured must act through counsel designated by the company and use every reasonable means to recover from these parties.

9. If the policy is written for a flat premium, payment of any claim does not reduce the amount of insurance but the insured is liable for an additional pro-rata premium.

Annual Transportation Floater.—This form, which is attached to the inland transportation form, is designed to cover merchandise shipped by manufacturers, wholesalers, or other business concerns.

Liability attaches from the time the goods leave the factory (subject to various endorsements), store, or warehouse at the starting point, until they are delivered at the point of destination or arrival at seaboard for export.

Specifically, the policy may cover the insured's property while at the risk of the insured and in the custody of the following:

1. Any railroad or railroad express company, including hazards occurring while the property is on ferries or in cars on transfers or lighters.
2. Regular coastwise lines or steamers navigating United States inland, Atlantic and Gulf waters not south of the Gulf of Mexico including risks of lighter or craft to or from vessels. Each lighter or craft is regarded as if separately insured. The policy does not cover shipments by vessels navigating on the Pacific coast, on any canals, on the Great Lakes, and on the Mississippi or Ohio Rivers and their tributaries.
3. Public truckmen, land transfer, or land transportation companies.

Property in the custody of common carriers incidental to transportation is also protected against hazards occurring while the goods are on docks, wharves, piers, bulkheads and platforms, and in depots and stations.

COVERAGE.—The following named perils are covered by the transit policy:

1. Losses on land caused by fire, lightning, cyclone, tornado, flood, explosion, earthquake, landslide, collision, derailment, and overturning of vehicles, collapse of bridges,

and other perils of transportation. The coming together of cars during coupling is not deemed a collision.

2. Waterborne losses caused by fire and perils of the sea including general average and salvage charges and expenses. No coverage is provided for particular average unless amounting to 3% of the value of each case or shipping package.
3. Theft of an entire shipping package only, excluding pilferage.

EXCLUSIONS.—The policy does not cover the following:

1. Losses of accounts, bills, currency, deeds, evidences of debt, money, notes, securities.
2. Losses due to leakage, breaking, marring, or scratching, unless resulting from fire, lightning, cyclone, tornado, explosion, earthquake, landslide, flood, collision, derailment, or overturning of vehicle while on land or unless caused by the vessel being stranded, sunk, burned, or in collision while waterborne.
3. Damages to goods resulting from delay, wetness, dampness, or being spotted, discolored, mouldy, rusted, frosted, rotted, soured, steamed or changed in flavor, unless the direct result of a peril insured against.
4. Losses resulting from strikers, locked-out workmen, or other labor disturbances.
5. Losses arising from riot or civil commotion.
6. Loss resulting from capture, seizure, arrest, restraint, detainment, confiscation, preemption, requisition or nationalization, and the consequences thereof or of any attempt thereat, whether in time of peace or war and whether lawful or otherwise.
7. Losses resulting from all consequences of hostilities or warlike operations (whether there be a declaration of war or not), piracy, civil war, revolution, rebellion or insurrection, or civil strife arising therefrom.
8. Loss due to export or import shipments or mail or aircraft shipments unless specifically stated.

9. Against loss or damage to merchandise shipped on deck of coastwise steamships.

Motor Truck Merchandise Floater.—The transportation policy thus far considered provides transportation insurance on property while in transit by carriers separate from the owners of the goods. Shippers of merchandise, however, often operate their own trucks. Furthermore, the independent truckman who ships the goods of others requires protection against his liability to third parties. Separate policies attached to the inland transit policy are accordingly issued to meet these needs and are termed, respectively, the motor truck shipper's form and the motor truck carrier's form.

Motor Truck Shipper's Form.—The owner's form is designed to cover his merchandise in transit, in trucks and trailers owned and operated by the insured and described in the policy. Coverage extends to goods on trailers only when trailers are attached to trucks and ceases when they are detached. The insured is permitted to substitute other trucks but the insured must report in writing substitutions as soon as practicable and pay any additional premium required. Each truck is subject to a designated limit of liability for the goods carried.

The owner's motor truck policy affords protection to goods in the owner's trucks against the following hazards:

1. Fire, including self-ignition and internal explosion of the conveyance, and lightning.
2. Cyclone, tornado, windstorm, and flood, that is, rising navigable waters, and earthquake.
3. Accidental collision of owner's trucks with any other vehicle or object.
4. Overturning or upset of the motor truck.
5. Collapse of bridges.
6. Perils of the seas, lakes, rivers, or inland waters while the goods are on ferries.
7. Theft of an entire shipping package excluding pilferage.

The motor transit form usually contains a coinsurance clause which is combined with the valuation clause. It limits the in-

insurance company's liability to that portion of the loss which the sum insured on the contents of the truck bears to the total value of the goods on the truck. If, for example, an owner insured for \$10,000 on contents of a truck, and the truck carries goods valued at \$15,000 and there is a loss of \$5,000, he will receive only \$3,333.33. The result is that the owner is a coinsurer to the extent of one-third of the loss.

EXCLUSIONS.—The following goods and perils are not covered:

1. Damages suffered when the owner's truck strikes the curb, any portion of roadbeds, rails or ties of steam and electric railroads, and stationary objects in backing for loading or unloading.
2. Damages incurred during coupling or uncoupling of trucks and trailers.
3. Loss of accounts, bills, currency, deeds, evidences of debt, money, notes, securities, jewelry, furs, and similar values.
4. Loss caused by neglect of the insured to exercise reasonable diligence during and after any insured disaster.
5. Damage caused by poor packing, rough handling.
6. As in the case of the annual shippers' floater, the company is not liable for articles which become spotted, dissolved, moulded, rusted, frosted, rotted, soured, steamed, or changed in flavor or for breakage, leakage, marring, scratching, wetness, or dampness, except in consequence of an insured peril.
7. Loss resulting from inherent vice or delay for any reason whatever.
8. Loss of animals, except in case of accident, for claims that arise from death or injury necessitating destruction caused by an insured peril.
9. Breakage of eggs, unless the loss amounts to 50% of the value of each shipping package and results from an insured peril. In any event, no loss is paid in excess of a stipulated amount, such as 25% of the policy.

10. Loss resulting from strikes, lockouts, labor disturbances, riots, civil commotion, capture, seizure, or detention.
11. Loss incurred on goods which are carried by the insured as bailee or under a contract of agreement of hauling.

Motor Truck Carrier's Form.—A truckman is liable for loss of goods transported by him, except when public enemies, the law, the owner of the goods, an act of God, or the inherent nature of the goods may be responsible for the loss. The truckmen's form protects the private or common carrier against his liability under bills of lading or shipping results for merchandise losses incurred while goods are in transit on his trucks. The general provisions and exclusions of the carrier's and shipper's form are similar, except that the former covers and the latter excludes liability for goods carried by the insured under a contract or agreement of hauling or a bailee for hire. Additional exclusions of the carrier form provide that there is no liability for damage to truck, trailer, tarpaulin, or fittings, or goods carried gratuitously or as an accommodation or for loss or damage to paintings, statuary, and other works of virtue unless total loss in specie.

PREMIUMS.—The premium for the truckmen's form is determined and payable in several ways, the usual being the following:

1. Flat annual premium based on the aggregate amount of insurance at risk on all scheduled trucks.
2. Gross receipts—The insured must report monthly, the full amount of the previous month's gross receipts. As here used, gross receipts denotes charges for ordinary packing of the goods preparatory to loading, for handling in loading and unloading, and for transportation to destination. The insured must maintain a record of gross receipts open for inspection by the insured's representative during business hours.

CERTIFICATE COPIES.—Upon request of the insured, duplicate copies of the original policy may be delivered to shippers and other interested parties. These certificate copies confer no rights to holders, being given only as a matter of information.

A statement must be attached to each certificate providing that it represents a copy of the original policy except as to rates, premium, endorsements, alteration, transfer, assignment, or cancellation. The holder of the certificate is not entitled to notice of these changes.

Common Carrier Endorsement.—By statute, owners of motor vehicles engaged in transporting goods for others in interstate traffic are subject to the Motor Carrier Act which is under the supervision of the Interstate Commerce Commission. An endorsement attached to the cargo insurance policy for interstate carriers, provides that the policy is amended in order to insure compliance by the insured as a common carrier of property by motor vehicle with the Motor Carrier Act 1935 with reference to making compensations to shippers or consignees for all property belonging to shippers or consignees coming into possession of the carrier in connection with its transportation service and pertinent rules and regulations of the Interstate Commerce Commission.

The endorsement provides that the company is not liable for an amount in excess of \$2,000 for any loss or damage occurring at any one time or place, nor in any event for an amount in excess of \$1,000 for the property carried on any one motor vehicle whether or not the loss or damage occur while the property is on the motor vehicle or otherwise. The liability of the insurance company for the limits provided in this endorsement is a continuing one notwithstanding any recovery made by the shipper.

The company agrees, subject to the limits of liability, above stated, to protect any shipper or consignee for a loss or damage to his property which comes into the possession of the insured in connection with its transportation service, for which loss or damage the insured may be held legally liable regardless of whether the motor vehicle, terminal, warehouse, and other vehicles used in connection with the transportation of the property is specifically described in the policy or not. The company is liable for loss or damage whether occurring on the route or in the territory authorized to be served by the insured, except in states specifically mentioned in which the insured opera-

tions are covered by other insurance. Within the limits of liability the shipper or consignee is not affected by any provision in the policy if the insured may be held legally liable to compensate the shippers or consignees, irrespective of the financial responsibility of the insured. The terms of the policy, however, are binding between the insured and the company. The insured is responsible to the company for any payment that the company would not have been obligated to make under the provisions of the policy except for the agreement stated in this endorsement.

The Interstate Commerce Commission must be furnished with a duplicate original of the policy and all endorsements whenever requested by the Commission.

Trip Transit Policy.—In its general nature the trip transit policy resembles the transportation policy. The chief point of distinction is that the trip transit policy covers only one trip on one movement of goods, while the transportation floater covers a series of shipments during the insured period. Accordingly, the trip transit policy is designed for occasional rather than continuous shippers and is especially useful to cover household furnishings, merchandise, and personal belongings.

Parcel Post Insurance.—Each package sent by parcel post can be insured with the government against loss and damage, including theft and pilferage, for which the government makes an additional charge.

GOVERNMENTAL AND PRIVATE INSURANCE.—In addition to insurance granted by the government, parcel post insurance which is an "all risk" form can also be purchased from the insurance companies. In many cases the government does not exactly meet the insurance need. The policy insures the safe arrival of the property contained in each package against loss or damage from any external causes whatsoever, except for specified exclusions hereafter stated occurring while the package is actually in the custody of the Post Office Department.

FORMS.—The open form and coupon form of parcel post insurance are available to the shipper. Under the coupon form, the insured purchases a book of coupons and agrees to detach

enough coupons to correspond to the premium required on the value of the shipment. The detached coupons are sent to the consignee with any package insured. When the book of coupons is exhausted, another is purchased to continue the insurance protection.

Under the open form the insured agrees to keep a record of all shipments and their value and to render a monthly report to the company. The premium is based on the value of the goods shipped.

COVERAGE.—The coupon form insures goods owned by and incidental to the insured's business, while in transit by registered and unregistered mail and by parcel post. Coverage continues, within the limits of the United States, Alaska, and Canada, from the time the property passes into the custody of the Post Office Department until its arrival at the address designated upon the stub of the coupon book.

PREMIUM.—As previously mentioned, the premium charge must be paid by the use of an equivalent value in coupons. For shipments by ordinary parcel post or unregistered mail, coupon requirements are as follows:

Value	No. of Coupons
\$25 or less.....	1
Over \$25 and not exceeding \$50.....	2
Over \$50 and not exceeding \$100.....	5

For shipments by registered mail or government insured parcel post, the following coupons are required:

Value	No. of Coupons
\$50 or less.....	1
Over \$50 and not exceeding \$150.....	2
Over \$150 and not exceeding \$250.....	5
Over \$250 and not exceeding \$500.....	8

The coupons are furnished in book form at the minimum rate of five cents per coupon. A package valued at \$100, for example, may be insured for 25 cents if shipped by ordinary parcel post and for 10 cents if sent by registered mail.

DUTY OF INSURED.—The insured must insure each package shipped by government insured parcel post, valued at \$100 or

less, with the government for at least 50% of the actual value, and each package valued in excess of \$100 with the government for not less than \$50.

The insured must mail all packages in strict accordance with the General Parcel Post Statutes, and comply with all the regulations for the conduct of the parcel post system as prescribed by the Postmaster General.

The insured must enclose with property or the invoice, one or more insurance coupons furnished by the company, and must enter upon the stub in each page from which such coupons have been detached: (a) the name and address upon the package; (b) the description of contents; (c) the valuation of the property; (d) the date of mailing; (e) class of mail by which the package was sent.

EXCLUSIONS.—The following goods and perils are not covered:

1. Accounts, bills, currency, deeds, evidences of debt, money, notes, or securities.
2. Merchandise shipped on consignment, memorandum or approval unless shipped in fulfillment of an order or request, or consigned to parties to whom the insured has previously sold merchandise.
3. Inherent vice of such merchandise as green fruits, butter, eggs, lard, or such other articles as are perishable in their own nature. These items are covered, however, against the risks of fire, theft, pilferage, and non-arrival of any such package.
4. Insufficient or insecure wrapping and packing, addressing or postage.
5. Shipments destined to transients at hotels unless sent by registered mail or government insured parcel post.
6. Packages bearing descriptive labels or the outside of which tends to describe the nature of the contents.
7. Packages which do not bear a stipulation "Return Postage Guaranteed."
8. Property covered by other insurance. Declaration of value to the post office department on packages sent by reg-

istered mail or government insured parcel post is not deemed a violation of this condition.

9. War, invasion, hostilities, rebellion, insurrection, confiscation by order of any government or public authority.
10. Risks of contraband or illegal transportation of goods or trade.

PROOF OF LOSS.—All losses must be immediately reported in writing to the company or its agent. Notice of loss should be accompanied by the original wrapper, if obtainable, and by the government receipt on shipments by registered mail or government insured parcel post.

UNDERWRITING PRACTICE.—The insurance companies do not desire to cover furs, stamp and coin collections, jewelry, watches, precious stones, and similar articles. The following articles are also usually not considered desirable risks: fountain pens, wearing apparel, hosiery and underwear, men's and women's clothing, dental supplies, automobile accessories, cigars, cigarettes, and tobacco.

Radio tubes, electric light bulbs, crockery and chinaware, glassware, phonograph records, and merchandise of a fragile nature are insured with a clause excluding the risks of breakage, howsoever caused.

PARCEL POST—OPEN POLICY.—The open form is similar to the coupon form, except as to the basis for payment of premium.

The insured must keep a record of all mail shipments to be covered by the policy before they leave the premises. The record must show the date and the value of each such shipment; the name and the address of the consignee, and the class of mail used. The record must be open to the inspection of the company's representative at all reasonable times during business hours.

The insured must send a statement to the company or its agent monthly on blanks furnished by the company giving the total value of shipments insured under the policy during the month immediately preceding together with a check for premium due.

A minimum annual specified premium is charged. All monthly statements as provided in the policy are charged against this minimum annual premium until this amount has been earned by the company. After the company has earned its minimum annual premium, the monthly payment of the additional premium is made in accordance with the terms stipulated in the policy.

FOREIGN COVERAGE.—Shipment to foreign points outside of the United States and the Dominion of Canada and Alaska, may be insured by a separate parcel post policy. The domestic policy may be endorsed to provide for such coverage.

Registered Mail Insurance.—The registered mail policy is an open form covering the property of the insured or the property of others which the insured wishes to insure, including bonds, coupons, stock certificates and other securities; postage and revenue stamps; postal express and other money orders; certificates of deposit, checks, drafts, notes, bills of lading and warehouse receipts, and other commercial papers; documents and papers of value; gold, silver, platinum, coin, and paper money; jewelry and precious stones. Because of the limit imposed by postal authorities, these articles may not be sufficiently protected when shipped by registered mail. The registered mail policy also insures similar property when shipped by express, registered air mail or air express. Hence this form of insurance is adapted to the needs of banks and other financial institutions which make frequent shipments by registered mail and express.

COVERAGE.—The registered mail policy provides coverage between the premises of senders and addressees within the limits of North America. Foreign mail to and from North America is similarly covered. In the event of non-delivery, the insurance continues until the article is returned to the sender.

The contract is usually an all risks coverage with exclusions of war risks and theft by employees of the insured or addressee.

DUTIES OF INSURED.—Under the terms of the policy, the insured must observe the following requirements:

1. All packages must be properly sealed and mailed in accordance with the standards of the post office or express company at point of dispatch.
2. All insured shipments must be declared and entered in the insured's records prior to loss. The amount may be more or less than the actual value of the property.
3. The insured has the option of making daily, monthly, or annual reports. His option is specified on an endorsement attached to the policy.
4. The contents of each package insured must be verified by two persons.

LIMIT OF LIABILITY.—Liability is limited as follows:

1. A specific amount per shipment of securities to one addressee on any one day. If declaration of any shipment to an addressee exceeds the stipulated amount, the excess may be covered only when notice is given to the company prior to the shipment.
2. A specific amount per package of currency shipped, unless otherwise extended by endorsement.
3. In event of other insurance for the excess over amounts covered by other insurers. The company, however, must advance the entire loss insured by the policy. The insured is obligated to refund the amount actually recovered on other insurance without interest and less any reinstatement premium on other insurance.

PAYMENT OF LOSSES.—In the event of loss, the insured may recover an amount which is equal to the value of the lost property at the time when the package was shipped or when the loss became known to him. Recovery may also be based on the cost of corresponding property purchased by the insured to replace the lost property, plus any actual loss of interest. In either case, the company is not liable for an amount in excess of the amount declared for insurance.

Losses are paid within a specified short period following receipt of proof of loss and transfer of title in the lost property to the company. The insured is also entitled to interest at the rate of 6% from the date of claim to the date of payment.

Securities insured may have been issued in non-negotiable form or may be declared for insurance at less than its market value before or after loss. Other insured property may have no definite market value. Under these circumstances, the insured may elect to secure reissue or duplication of the security rather than transfer title in the lost property to the company. The company is then liable to pay, but not beyond the amount declared for insurance, the actual loss of interest suffered by the insured plus the expense incurred to obtain reissue or duplication. The company must also furnish surety on any bond indemnity required for reissue or duplication.

By endorsement the policy can be extended to cover shipments by armored cars and messengers.

Floaters Covering Personal Property

Classification.—Property floaters may be issued to insure the personal property of individuals and to insure property in connection with the business of the policyholder. Illustrations of policies covering the personal property of individuals are:

1. Schedule property floater
2. Personal effects floater
3. Tourists' baggage floater
4. Personal property floater
5. Jewelry-fur floater
6. Fur floater
7. Wedding presents floater
8. Silverware and silver plate floater
9. Fine arts floater
10. Musical instruments floater
11. Stamp collection floater
12. Camera floater

As here used, personal property does not distinguish the articles insured from real property, but rather to indicate belongings of a personal nature such as clothing, jewelry, furs, and other articles frequently worn or used by the insured.

Schedule Property Floater.—Many of the inland marine insurance forms covering miscellaneous personal articles are attached to the schedule property floater.

Under this floater, the company's liability is measured thus :

1. In case of articles consisting of several parts for the insured value of the part lost or damaged.
2. In the event of loss of or damage to any article of a set for a reasonable and fair proportion of the total value of the set. Loss of or damage to any article or articles which are a part of a set does not mean total loss of the set. However, consideration is given to the importance of the damaged or lost article or articles.

As in the case of the inland transit form, which the schedule property floater follows in many of the provisions, the insurance company is not liable for losses when benefits directly or indirectly inure to a carrier or other bailee.

Personal Effects Floater (World Wide).—The personal effects floater insures personal effects such as are usually carried by travelers and tourists, including the insured, his wife, and their unmarried children permanently residing together. In this respect it differs from policies covering property specifically described.

COVERAGE.—The coverage is all risk and world wide subject to specific exclusions. The personal effects floater therefore insures the traveler against property losses resulting from hotel fires, railroad and bus wrecks, thefts in hotels, damages at laundries and cleaners, and similar hazards.

The coverage on jewelry, watches, furs, and other articles consisting wholly or in part of silver, gold, platinum, or fur is limited to a specified percentage of the insurance and not exceeding a stipulated amount on each article. Full coverage on these articles may be obtained by the jewelry-fur floater or the fur floater analyzed subsequently.

Except when in the custody of a common carrier coverage is also limited to a stipulated percentage and amount when the loss is the result of stealing from an unattended car which has been securely locked.

EXCLUSIONS.—No coverage is provided for the following articles and hazards :

1. Automobiles, automobile robes, motors, mortorcycles, bicycles, boats, and other conveyances and their appurtenances.
2. Accounts, bills, currency, deeds, evidences of debt, letters of credit, passports, documents, notes, securities, railroad and other tickets, household furniture, animals, physicians' and surgeons' instruments and artificial teeth and limbs.
3. Salesmen's samples and merchandise for sale or exhibition.
4. Theatrical property of any kind.
5. Property covered by other insurance.
6. Any property at the permanent residence of the insured or in storage except at points enroute during travels.
7. Personal effects in the custody of students while in fraternity or sorority houses or on premises of schools and colleges, except against the risk of fire.
8. Except when in the custody of a common carrier, theft or pilferage of the insured property left unattended in any automobile which is not equipped with a fully enclosed body or compartment and does not show marks of forced entry.
9. Gradual deterioration, moths, vermin, inherent vices, and damage sustained as a result of working upon the product.
10. Breakage of brittle articles unless caused by thieves, fire, or accidents to the conveyance.
11. Losses arising from risks of war, invasion, hostilities, rebellion, insurrection, confiscation by order of any government or public authority, and risks of contraband and illegal transportation or trade.

The following endorsements may be used to modify the policy:

1. Students'.
2. Domicile.
3. \$25 deductible clause.
4. Additional named persons.
5. Unattended automobile.
6. Auto home trailer.
7. War risk.

1. STUDENTS' ENDORSEMENT.—Upon payment of an additional premium the policy may be endorsed to provide coverage for property while in fraternity or sorority houses, dormitories, or on the premises of schools or colleges.

2. DOMICILE ENDORSEMENT.—If permitted by the state statute, the policy may be endorsed to cover property while in the domicile of the insured, excluding jewelry, watches, furs, and other articles consisting in whole or in part of silver, gold, platinum, or fur.

If this endorsement is used, the company is not liable for a greater proportion of any loss or damage to the property except property excluded by the endorsement than the sum insured bears to the full cash value of the insured property at the time of loss.

3. TWENTY-FIVE DOLLAR DEDUCTIBLE ENDORSEMENT.—The cost of insurance may be reduced by providing for a deduction of \$25 from each claim for loss or damage.

4. ADDITIONAL NAMED PERSON ENDORSEMENT.—Upon the payment of an additional premium, the property of any person permanently residing with the insured may be covered. A separate endorsement is required for each additional person.

5. UNATTENDED AUTOMOBILE ENDORSEMENT.—Upon the payment of an additional premium, the company will eliminate the provision excluding liability for theft or pilferage when the insured property is left unattended while in any automobile.

6. AUTO HOME TRAILER ENDORSEMENT.—The policy can be extended to cover furniture and furnishings belonging to and used by the insured while contained in one auto trailer or trailer home owned or leased by the insured. The endorsement does not cover:

- (a) Equipment and accessories built into and forming a permanent part of the automobile trailer home.
- (b) Equipment as is usually attached to the ordinary automobile of the private passenger or truck type.
- (c) Loss or damage caused by marring, scratching, dampness of atmosphere or extremes of temperature.

- (d) Mechanical breakdown or any damage to electrical apparatus caused by electricity whether artificial or natural unless fire ensues, and then for loss by such ensuing fire only.

7. **WAR RISK.**—The risk of loss or damage arising from war, invasion, hostilities, rebellion, or insurrection may be covered for an additional premium subject to the following limitations:

(1) The endorsement does not cover any loss or damage caused by or resulting from any of the following:

- (a) Seizure, detention, or confiscation under customs or quarantine regulations;
- (b) Commandeering, preemption, requisition, or nationalization by any government, *de facto* or otherwise;
- (c) Seizure, detention, or confiscation by the Government of the United States or Dominion of Canada based on enemy ownership or interest, or on violation of law.

(2) The endorsement does not cover outside of the continental limits of the United States and Dominion of Canada excepting while the property insured is on board an overseas vessel.

This endorsement is also available for such floaters as the tourist baggage floater, jewelry-fur floater, fur floater, camera floater, and musical instruments floater.

Tourists' Baggage Floater (World Wide).—The tourists' baggage policy is similar to the personal effects floater but is written on a more restricted basis. Instead of insuring against all risks, it covers named perils only, to which the personal effects of the insured, his wife, and unmarried children permanently residing with him may be exposed. Furthermore, this policy insures only the articles specifically listed in the policy.

COVERAGE.—The policy covers the following personal effects and hazards:

1. Wearing apparel, toilet articles, canes, parasols, umbrellas, printed books and music, photographs and their frames,

musical instruments, portable typewriters, photographic apparatus and supplies, toys and games, sportsmen's implements, traveler's clocks, watches, jewelry, plate and plated ware, trunks, suitcases, bags, and other receptacles of travel belonging to and used or worn by the insured or his wife and their unmarried children permanently residing together.

2. Fire or lightning.
3. The risks and perils of transportation and navigation while in the custody of any railroad, express, transfer, transportation, steamship, or steamboat company or licensed public truckman, while in due course of transit on land or water.
4. Collision of an automobile containing the insured property.
5. Stranding, sinking, burning, or collision of a yacht on which the insured may be a guest.
6. Theft, while the property is in the custody of a common carrier.
7. The theft of entire trunks, traveling bags, or other shipping packages with their contents, from rooms occupied by the insured, or when checked in any hotel, boarding house or public parcel room, provided the local police authorities are immediately notified on discovery of the loss.
8. Liability for jewelry, watches, and furs is limited to a specified percentage of insurance and a stipulated amount for each article.

EXCLUSIONS.—Coverage does not extend to the following articles and perils:

1. Conveyance and their appurtenances.
2. Salesmen's samples and merchandise for sale or exhibition.
3. Theatrical property of any kind.
4. Property covered by other insurance.
5. Property in the insured's permanent residence.
6. Property in any place where the insured ordinarily keeps his automobile.

7. Property in storage warehouses, except at points en route during travel.
8. Property of students while in fraternity houses, dormitories, and other premises of schools and colleges.
9. Breakage of brittle articles, unless caused by thieves, fire, or accident to conveyances.
10. War, invasion, hostilities, rebellion, insurrection, confiscation by order of any government, public authority, and risks of contraband and illegal transportation or trade.

ENDORSEMENTS.—For an additional premium, a student's endorsement may be attached to the policy covering property in fraternity and sorority houses, dormitories, and other premises of schools and colleges.

By endorsement, coverage can be extended to include the personal effects of additional named persons.

Personal Property Floater.—In many states coverage can be issued for property within the residence and away from the residence. The insurance is provided by the Personal Property Floater. The policy includes personal property belonging to or used or worn by the insured and members of the insured's family of the same household.

COVERAGE.—The coverage is all risks while in all situations subject to specific limitations.

For the purpose of insurance all property is divided into two groups: (a) unscheduled personal property; (b) personal jewelry, watches, furs, fine arts and other property as per a schedule which must be attached to the floater. Each item in this group is considered separately insured.

EXCLUSIONS.—No coverage is provided for the following articles and hazards:

1. Automobiles, motorcycles, aircraft, boats, other conveyances (bicycles excepted), nor their equipment, furnishings and appurtenances, except (as to equipment, furnishings and appurtenances) when detached or removed from the conveyance and contained in the principal residence of the insured.

2. Animals.

3. Property pertaining to the business, profession or occupation of the persons whose property is insured.

4. Against breakage of eye glasses, glassware, statuary, marbles, bric-a-brac, porcelains and similar fragile articles (jewelry and watches excepted), unless caused by fire, lightning, theft or attempted theft, cyclone, tornado, windstorm, earthquake, flood, explosion, malicious damage or accident to conveyance.

5. Against mechanical breakdown.

6. Against damage to electrical apparatus caused by electricity whether artificial or natural, unless fire ensues and then only for loss or damage by such ensuing fire.

7. Against loss or damage occasioned by wear and tear, dampness of atmosphere, extremes of temperature, deterioration, moth, vermin, inherent vice.

8. Against damage sustained due to and resulting from any repairing, restoration or retouching process (jewelry and watches excepted).

9. Against loss or damage occasioned by marring or scratching of any property not specifically scheduled, unless caused by thieves, fire, windstorm, earthquake, explosion or accident to conveyance.

10. Property on exhibition at fair grounds or on the premises of any national or international exposition, unless such premises are specifically described in the policy or by endorsement.

11. Against loss or damage arising from or occasioned by war (whether declared or not), invasion, hostilities, rebellion or insurrection, or seizure, confiscation, requisition, nationalization, destruction or damage by or under the order of any government or public authority or military or usurped power; or risks of contraband or illegal transportation or trade. This clause is not to be construed to apply to strikes, riots or civil commotions, nor to acts of duly constituted civil authorities in retarding a conflagration.

LIMITATIONS.—In addition the policy provides that:

1. Not more than 10% of the amount of insurance on unscheduled personal property can be applied to personal property

ordinarily situated throughout the year at any residence other than the principal residence of the insured.

✓2. Personal jewelry, watches and furs not specifically scheduled, or otherwise specifically insured, are covered for an amount of not exceeding \$250 in any one loss, unless caused by fire, windstorm, hail, earthquake, explosion, motor vehicle or aircraft property damage, or accident to conveyance.

3. Money, notes, securities, stamps, accounts, bills, deeds, evidences of debt, letters of credit, passports, documents and railroad or other tickets, while on premises occupied or rented by the insured are covered only against loss by accidental destruction, burglary, robbery, theft or larceny, and while elsewhere only against loss by hold-up. The company is not liable for more than \$50 on account of any one loss of such properties.

4. Property up to 10% of the insurance on unscheduled personal property, and not otherwise insured, (belonging to guests or servants of the insured) is covered while on the premises of the insured, including servants' property while away from the premises of the insured when the servants are actually engaged in the service of the insured.

In event of loss by burglary or theft for which the company is liable, the company will also pay the actual loss sustained, not exceeding \$500 in any one loss, for any physical damage directly caused to any other property of the insured (not specifically excluded under the policy) in the accomplishment of such burglary or theft.

Jewelry-Fur Floater (World Wide).—Since the normal use of jewelry and furs requires them to be carried frequently from the residences of the owners, insurance is needed against hazards at any location. Thus the jewelry-fur floater is offered.

COVERAGE.—The coverage includes the specific articles mentioned when they are the property of the insured and of members of his family who are in permanent residence with him.

The policy contains provisions for settlement of losses of articles in a pair or set and warranty in reference to the carrier similar to the schedule property floater as already explained.

EXCLUSIONS.—While the policy is called an all risk form, it excludes losses resulting from gradual deterioration, moths,

vermin, inherent vice, war, invasion, hostilities, rebellion, insurrection, confiscation, or risks of contraband or illegal transportation or trade.

Fur Floater (World Wide).—If the insured desires, he may obtain an all risk floater which covers only fur coats and similar articles made of fur, owned by the insured and members of his family of the same domicile. The policy contains exclusions similar to those of the jewelry-fur floater. In addition the company is not liable for damage sustained as a result of any process or of being actually worked upon.

To determine the amount of insurance, the furs should be appraised by a reputable furrier. When the policy is renewed there may be a reduction in the amount of insurance due to depreciation. The rate of reduction depends upon quality, repairs effected, care of the particular article of fur, and general market value of furs.

Wedding Presents Floater (World Wide).—This form is attached to the schedule floater policy to cover wedding presents wherever located for a stipulated time after the wedding.

EXCLUSIONS.—All property and risks are covered except :

1. Realty, animals, automobiles, motorcycles, aircraft, bicycles, boats, motors, other conveyances and their appurtenances, automobile robes, accounts, bills, currency, deeds, evidences of debt, letters of credit, passports, documents, money, notes, securities, and railroad or other tickets.
2. Wear and tear, gradual deterioration, moths, vermin, and inherent vice.
3. Perils incident due to process or working upon articles.
4. War, invasion, hostilities, rebellion, and insurrection.
5. Confiscation by order of any government or public authority.
6. Risks of contraband and illegal transportation or trade.
7. Breakage, marring, or scratching of china, glass, marble, earthenware, furniture, and other brittle articles, unless caused by fire, lightning, windstorm, earthquake, explo-

sion, thieves, malicious damage, or accident to conveyances.

By endorsement the policy can be extended to cover the risk of breakage of brittle or fragile articles.

Silverware and Silver Plate Floater (World Wide).—When attached to the schedule property floater, this form insures silverware and silver plated articles.

COVERAGE.—This form covers articles belonging to the insured and members of his family living permanently with him. The company is liable for all risks whether the loss occurs during transportation, or otherwise.

EXCLUSIONS.—The following articles and perils are specifically excluded from coverage :

1. Flasks, smoking and writing instruments, and articles of personal adornment.
2. Denting, unless caused by fire, tornado, burglary or theft.
3. Breakage or damage to glass or other brittle articles.
4. Deterioration or wear and tear.
5. Loss resulting from working upon or due to process on articles.
6. War, insurrection, military or usurped power.
7. Confiscation by order of any government or public authority.

Fine Arts Floater.—Another personal property floater is provided for the owner of fine arts by the fine arts policy. This contract is used to insure objects of art which are individually scheduled and valued in the policy.

COVERAGE.—The personal fine arts floater covers specified art collections of private individuals excluding dealers, auction rooms, museums, art galleries, and other art institutions open to the public. The insured must warrant that the insurance will not accrue directly or indirectly to the benefit of any carrier or other bailee.

EXCLUSIONS.—The policy is an “all risk” cover but does not cover the following perils:

1. Wear and tear, gradual deterioration, moths, vermin and inherent vice.
2. Loss from any repairing, restoring, or retouching process.
3. War, invasion, hostilities, rebellion, insurrection, or confiscation by order of any government or public authority.
4. Risks of contraband and illegal transportation or trade.
5. Unless otherwise endorsed, breakage of statuary, marble, glassware, bric-a-brac, porcelain, and similar fragile articles, except when caused by fire, lightning, attempted or actual theft, cyclone, tornado, windstorm, earthquake, flood, explosion, aircraft damage, malicious damage, collision, overturn or derailment of conveyance.
6. Losses occurring on fair grounds or premises of any national or international exposition, unless these locations are specifically described either in the policy or by endorsement.

LIMIT OF LIABILITY.—The company is not liable for more than the amount stated in the schedule for the lost or damaged article. If one article of a set is destroyed, the measure of liability is a reasonable proportion of the value of the set, rather than the total loss.

A fine arts policy is also available for dealer's auction rooms, museums, art galleries and similar institutions. Unless authorized by the company, policies covering property in certain territories must be endorsed to exclude windstorm, cyclone, or hurricane.

Musical Instruments Floater.—The musical instruments floater provides coverage against the loss of musical instruments. This insurance is usually written on an endorsement to be attached to the schedule property floater policy. Two forms are available: the broad form, designed to cover such musical instruments as valuable violins and the limited form, designed to cover musical instruments of standard manufacturers.

BROAD FORM.—The broad form of the musical instrument floater provides all risk coverage for musical instruments described in the policy within the limits of continental United States and Canada. The insured may be required to warrant that he will not play any insured musical instrument for remuneration during the policy period.

Exclusions. The broad form does not cover :

1. Loss or damage caused by refinishing, renovating or repairing, moths or vermin, wear and tear, or gradual deterioration.
2. Loss or damage caused by dampness of the atmosphere or extremes of temperature.
3. Loss of or damage caused by breakage of strings.
4. Loss or damage caused by infidelity of persons to whom the insured property may be loaned or rented.
5. War, invasion, hostilities, rebellion, insurrection, or confiscation by order of any government authority.
6. Risks of contraband and illegal transportation or trade.

LIMITED FORM.—The limited form insures against : fire and lightning ; cyclone, tornado, flood ; theft, and accidents to conveyances.

Exclusion. The policy does not insure against losses resulting from

1. Infidelity of persons to whom the insured property is loaned or rented.
2. Property left unattended in or on any automobile unless in the custody of a common carrier.
3. War, invasion, hostilities, rebellion, insurrection or confiscation by order of any government authority.
4. Risks of contraband and illegal transportation or trade.

The insured may be required to warrant that he is not and will not be engaged in playing for remuneration any musical instrument insured during the policy period.

Stamp Collection Form.—When attached to the schedule property floater, the stamp collection form is designed to cover

any privately owned collections of stamps and all other similar property.

This property includes postage stamps, including due, envelope, official revenue, match and medicine stamps, covers locals, reprints, essays, proof and other philatelic property owned by the insured and listed in the schedule. Coverage is also provided for books, pages, or mountings upon which stamp collections are placed as specified in the schedule.

Though the stamp collection form is an all risk policy, the following perils are excluded :

1. Fading, creasing, tearing, thinning, transfer of colors, wear, tear, dampness, extremes of temperature, moths, vermin or gradual depreciation and deterioration or damage sustained from handling or while being actually worked upon or resulting therefrom.
2. Infidelity of persons to whom insured property is entrusted.
3. Against theft from an unattended automobile unless in the custody of railway express, armored car companies, or while being shipped by registered mail or insured parcel post.
4. Mysterious disappearance of individual stamps unless specifically scheduled with a definite valuation set opposite their description, or if not specifically scheduled, unless mounted in a volume, and the page to which they are attached is also lost.
5. Loss or damage to property in the custody of transportation companies unless such shipments are made by railway express or armored car, and shipments by mail unless by registered mail, or insured parcel post.
6. Loss or damage arising from war, invasion, hostilities, rebellion.
7. Loss due to confiscation by order of any government or public authority.
8. Risk of contraband or illegal transportation or trade.

LIMIT OF LIABILITY.—In case of loss of or damage to the property specifically described in the schedule, the company's liability is the amount specified in the schedule for the particular item.

In case of loss or damage of individual items, the company will make good such loss up to amount set opposite items.

In case of loss of or damage to property specifically described as pairs, strips, blocks, series, sheets or the like, the company will pay in the event of total loss of such an item the amount set opposite the item involved. In the event of partial loss, the company is liable for not more than the cash market value of the whole set, less the cash market value of the remainder at the time of loss; but if the property was insured for less than the cash market value, the liability of the company cannot exceed the proportion that the amount insured bears to the cash market value.

For property not provided for above, the company is not liable for more than the actual cash market value of the property at the time of loss, less depreciation however caused, not exceeding, however, \$250 with respect to any one stamp or any one pair, strip, block, series, sheet, cover or the like.

The company is not liable for a greater proportion of loss on unscheduled property than the sum insured on such property bears to cash market value at time of loss.

Camera Form (World Wide).—When attached to the schedule property floater, the world-wide camera form is designed to insure cameras, projection machines, films and articles of equipment pertaining to the camera. The policy covers against all risks or loss or damage to the property described in the form except for the specified exclusions.

EXCLUSIONS.—The following perils are excluded from coverage:

1. Loss of or damage to any camera or equipment designed for aerial photography, while in or on any aircraft, unless endorsed on the policy.
2. Loss or damage caused by wear and tear, gradual deterioration, moths, vermin, inherent vice.
3. Damage sustained due to any process or while being actually worked upon and resulting therefrom.
4. Infidelity of persons to whom the insured property may be loaned or rented.

5. Loss or damage arising from war, invasion, hostilities, rebellion, insurrection.
6. Confiscation by order of any government or public authority.
7. Risks of contraband or illegal transportation or trade.

Floater Covering Property and Equipment of Commercial Enterprises

Classification.—Property floater policies, as previously mentioned, fall into two broad classes. The policies thus far described cover the property of individuals. An analysis will be made of important forms which insure property in connection with the business of the policyholder.

Illustration of policies in this group are:

1. Garment contractor's floater
2. Theatrical floater
3. Salesman's floater
4. Jeweler's block floater
5. Bailee's customers' floater
6. Dyers' and cleaners' floater
7. Bailee's customers' laundry floater
8. Furrier's customers' floater
9. Installment floater
10. Neon sign floater
11. Horse and wagon floater
12. Contractor's equipment floater
13. Bridge builder's risk policy
14. Bridge property damage policy
15. Bridge use and occupancy policy

Garment Contractor's Floater.—The garment contractor's floater is used to protect those manufacturers who do not perform on their own premises all the steps necessary to produce completed garments. The goods may be sent by the manufacturer to specialists who do some particular part of the work and return them to the owner, who may then send them to still another specialist for additional work. In order to provide cov-

erage for these goods while out of the owner's custody, the garment contractor's floater is written as an endorsement on the inland transit policy.

COVERAGE IN TRANSIT.—The policy covers the property of the insured while in transit between his premises and the premises of the contractors or subcontractors against loss or damage caused by fire, lightning, cyclone, tornado, flood (meaning thereby rising navigable water), theft and collision, derailment or overturning of transporting conveyances and all other risks and perils of transportation which may not be otherwise excluded by the policy. The policy covers from the time the property insured passes into the custody of any railroad express company, public truckman, transfer or transportation company or trucks owned, hired, or leased by the insured, contractors or subcontractors for transportation between the insured's and contractor's or subcontractor's premises. The transportation coverage also includes goods shipped by messenger, taxicabs, or handcarts.

The transportation coverage is subject to a specified amount in any one casualty either in case of partial or total loss or salvage charges or expenses or all combined. A special limitation is placed upon loss during shipment by messenger. The insured is permitted to release public truckmen to a valuation of not less than \$50 each case, bail or shipping package. The insured is permitted to accept delivery receipts issued by a carrier whereby the liability is limited to 50 cents per pound but not less than \$50 per shipment.

COVERAGE AT CONTRACTOR'S PREMISES.—Property temporarily detained on the premises of contractors and subcontractors during processing anywhere within the limits of the United States is protected against the perils of fire, lightning, water damage, burglary, hold-up, and other overt felonious acts committed in the premises and with the cognizance of the custodians.

The policy provides in the case of burglary that felonious entry must have been made by actual force and violence by the use of tools, explosives, electricity or chemicals leaving visible

marks at the point of entry and during hours when the premises were not open for business.

LIMIT OF LIABILITY.—The company is not liable for a greater proportion of any loss than the stated amount insured bears to the actual aggregate value of the insured property at all places at the time of loss. The policy is thus subject to 100% coinsurance. Furthermore, except in the case of a contractor specifically named, liability is limited to a specified sum for any loss, whether it is partial loss, total loss, salvage charges, or the trio combined.

DUTIES OF INSURED.—The policyholder must agree to keep books and records in a form that will permit accurate determination of the exact amount of loss. The company requires access to these books and records during business hours.

ENDORSEMENTS.—Coverage may be extended by written agreement to include the following hazards:

1. The risk of theft in the premises of the contractor, excluding, however, conversion or other act of dishonesty on the part of the insured, contractors, subcontractors, or their respective employees, mysterious unexplained disappearance or shortage disclosed by taking inventory or any other unaccountable loss where there is no evidence that the loss was occasioned by the perils specifically insured against.

2. Leakage, discharge or precipitation from any automatic sprinkler system including freezing or collapse of tanks or their component parts. Coverage is provided whether the leakage originated in the portion of the premises occupied by the insured or not.

3. The consequential damage liability by providing that when any portion of an insured garment, for example, is so damaged as to prevent the sale of the entire garment at its actual market value, the company agrees to pay the difference between the actual cost, not exceeding market value, of the completed garment and the realizable value after the loss. If it chooses, the company may require the insured to surrender the portions not destroyed when paying him for the loss. The insured must warrant, however, that he will endeavor during a

specified number of days after the loss to replace the destroyed portions. With respect to any one disaster involving both direct loss and consequential damage, the company is not liable for more than the limit stated in the policy.

4. Direct loss or damage caused by (a) malicious mischief, rioters, strikers, or persons taking part in insurrections and rebellions, or (b) explosion of any nature other than boiler explosion. No claim is allowed for delay, deterioration, or loss of market, or for confiscation, or destruction by the government of the country in which the property is situated.

Theatrical Floater.—As the name indicates, the theatrical floater is designed to insure theatrical property. It is usually written as an endorsement on the schedule property floater.

COVERAGE.—The theatrical form covers the following property and perils within the limits of the United States and Canada:

1. Scenery, costumes, and other theatrical property, excluding buildings, improvements, furniture and fixtures that do not travel about with theatrical troupes, which the owner owns or holds in trust or on commission or consignment. Property on which advances have been made or which has been sold but not delivered is likewise covered. In each case the specific play for which the property is used must be stated in the policy.
2. Fire, lightning, collision, overturn or derailment of conveyances and while the property is being transported by railroad, express, public truckman or land transportation agency including while the property is on docks, wharves, piers, bulkheads, depots, stations, and platforms during transportation. The coming together of railroad cars during coupling operations is not deemed a collision and hence not covered.
3. Stranding, sinking, burning, or collision while the insured property is being transported on ferries or in cars on transfers.
4. Fire or lightning in any theater, or business building, but not in the insured's customary premises except if a thea-

ter or a playhouse. Prompt notice must be given the company when property is placed in storage.

5. Death of animals effected or necessitated by the insured perils listed above.
6. General average and salvage charges.

EXCLUSIONS.—The company is not liable under the theatrical form for the following articles and hazards :

1. Jewelry other than costume jewelry.
2. Accounts, bills, currency, deeds, evidences of debt, documents, money, notes, securities, and railroad or other tickets.
3. Total or partial collapse of buildings unless the direct result of fire or lightning.
4. Strikes, lockouts, labor disturbances, riots, or civil commotion.
5. War, invasion, hostilities, rebellions, insurrection, confiscation by order of any government authority, risk of contraband, and illegal transportation or trade.

LIMIT OF LIABILITY.—The insured must also expressly warrant that he will not enter into a special agreement limiting the liability of carriers, without the written permission of the company. Another clause makes him coinsurer to the extent of any deficiency, if he has insured for less than the actual value of the property.

Salesmen's Floater.—When attached to the schedule property floater, the salesmen's floaters insure concerns against risks to which salesmen carrying samples are exposed. The salesmen's floaters are available in the limited and broad form.

LIMITED FORM.—Under the limited form the company is liable for the following hazards :

1. Perils of fire, lightning, navigation, and transportation, while the insured articles are in the custody of any railroad, express, transfer or transportation company, and steamship or steamboat.
2. Fire and lightning on automobiles or while in a hotel dwelling or business building.

3. Theft of an entire trunk or shipping package while being transported in the custody of a common carrier under check or receipt.
4. Theft of an entire trunk or shipping package while checked in any hotel.

Exclusions. The limited form does not cover the following contingencies:

1. Hazards on any premises of the insured and in theaters and opera houses.
2. Losses covered by specific insurance.
3. Breakage, leakage, marring, scratching, wet or dampness, unless caused by a peril insured against.
4. Loss in value incurred when articles become spotted, discolored, mouldy, frosted, soured, rotted, steamed, or changed in flavor, unless as a result of an insured peril.
5. Loss through delay, inherent defect, and inadequate packing or addressing.
6. Strikes, riot, civil commotion, capture, seizure, detention, war, contraband, and illicit transportation or trade.

SALESMAN'S BROAD FORM.—By endorsement, the salesman's floater may be extended to provide "all risk" coverage. The endorsed policy insures property anywhere while in the custody of the insured's salesmen, in the hands of the principal acting as salesman, or while in transit between the insured's premises and the salesmen.

Though termed "all risk" coverage, the endorsement excludes the following articles and hazards:

1. Losses occurring on business premises of the insured or of his salesmen and agents.
2. Losses occurring while property is left unattended in automobiles or on motorcycles.
3. Damage resulting from wear and tear, gradual deterioration, moths and vermin.
4. Losses resulting from breakage, marring, and scratching, unless caused by fire, lightning, cyclone, tornado, flood, actual or attempted theft, or by accident while in the transporting conveyances.

5. Losses caused by infidelity of any person to whom the merchandise may be entrusted or of any attendant while property is in or on any automobile or motorcycle.
6. Strikes, riots, civil commotion, capture, seizure, detention, war, contraband, and illicit transportation or trade.

Jeweler's Block Floater.—The jeweler's block policy is designed for those engaged in the manufacture or sale of jewelry. It is intended to provide complete coverage under one policy on all stock usual to the conduct of the jewelry business. In view of the broad coverage, the moral hazard is a vital consideration in the indemnity of this form of insurance.

COVERAGE.—The company assumes "all risk" liability for losses on pearls, precious and semi-precious stones, jewels, jewelry, watches, watch movements, gold, silver, platinum and other precious metals and other alloys and stocks employed in the jewelry business under the following conditions:

1. When property is owned by the insured.
2. When property is delivered or entrusted to the insured by others who are not dealers in the property and who are not otherwise engaged in the jewelry trade.
3. When property is entrusted to him by jewelers or dealers in the merchandise only to the extent of the insured's interest by reason of legal liability or for money actually advanced.

EXCLUSIONS.—The following hazards are not covered by the jeweler's policy:

1. Theft, conversion, sabotage, and other dishonest acts of commission or omission including sabotage on the part of the insured, his employees, or any other persons to whom the property may be delivered or entrusted. These risks are covered, however, if loss occurs when goods are deposited for safe custody by the insured, by a member of the firm, or by a salesman while traveling. This exclusion also does not apply while the goods are in the custody of a common carrier; of a mere porter, helper, or carrier not permanently employed by the insured; and of the post office department as first class registered mail.

2. Damage resulting from processing or working upon the goods.

3. Loss due to capture, seizure, arrest, restraint, detainment, confiscation, preemption, requisition or nationalization whether in time of peace or war whether lawful or otherwise. Also loss due to all consequences of hostilities or warlike operations whether there be a declaration of war or not, piracy, civil war, revolution, rebellion or insurrection or civil strife arising therefrom.

4. Losses resulting from strikes, lockouts, labor disturbances, riot or civil commotion.

5. Losses resulting directly or indirectly from typhoon, hurricane, tornado, cyclone, volcanic eruption, rising of navigable waters, subterranean fires, and other convulsions of nature. It should be noted that losses from fire or theft made possible by these various perils are similarly excluded. This exception only applies to land risks.

6. Losses occurring during transportation by express unless the articles are in sealed packages by railway express.

7. Losses in the mails unless the goods are registered first class.

8. Losses in air mail or air express, unless permitted by endorsement.

9. Losses in freight shipments whether by land or sea.

10. Breakage of brittle articles unless caused by theft, burglary, fire, or accident to the conveyance in which the property is being carried.

11. Losses on goods sold on the installment plan from the time they leave the insured's custody.

12. Loss while the property is being worn by the insured or by an officer, director, agent, employee, servant or messenger of the insured or while it is in their custody for this purpose. The same exclusion applies to members of these individuals' family, friends and relatives, dealers and other persons, firms, or corporations engaged in the jewelry trade and their directors, officers, employees, servants, and messengers.

13. Losses on property left in automobiles, motorcycles, and other vehicles, unless attended by the insured, a permanent em-

ployee, or a person whose sole duty it is to guard the vehicle. This exclusion does not apply, however, when the goods are in the custody of a common carrier or in the custody of the post office department as first class registered mail.

14. Losses occurring while property is at any public exhibition promoted or financially assisted by any public authority or trade association.

15. Unexplained shortages, including goods claimed to have been forwarded in packages which reach the consignee in apparent good condition with seal unbroken.

16. Loss of goods when sent C.O.D. by any express line with the privilege of inspection by the consignee before delivery.

LIMIT OF LIABILITY.—The company is liable for the amount stated in the policy for losses on the insured's premises. If goods, however, are lost from windows as a result of the smashing of the windows, the insured must bear 20% of each claim.

A maximum liability limit is set, however, for outside limit coverage which applies to property in transit by express or first class registered mail (or air mail or air express if endorsed on the policy) or which is deposited in the vault of a bank or safe deposit company or which is in the possession of a customer or in the custody of a dealer in property described in the policy not employed by or associated with the insured. In addition, a maximum liability limit is placed on property elsewhere than on the premises of the insured which was not included in the previous clause. The effect of these clauses is to limit the company's maximum liability for losses on property outside the insured's premises and on property while in transit in the custody of the insured's salesmen, employees, messengers, and members of the firm.

The company is not liable beyond the actual cash value of the property at the time of the loss with proper deduction for depreciation. However, this amount cannot exceed the lowest figure placed upon the property in the insured's records existing at the time of the loss nor the cost of repair or replacing the same with material of like kind and quality. No consideration is given to any antiquarian or historical value attached to the property. For claims in respect to pledged articles, the lia-

bility is limited to the amount actually loaned and unpaid plus the accrued interest at legal rates.

In case of loss of property of others the company has a right to adjust the loss with the owners of the property. If legal proceedings are taken to enforce a claim against the insured with respect to such loss, the company reserves the right to conduct and control the defense on behalf of the insured.

OTHER INSURANCE.—There is no coverage if at the time of loss any other insurance would then attach if the jeweler's block insurance had not been effected except that the insurance will apply as excess insurance.

DUTIES OF INSURED.—To bind the company, the insured must make and observe certain warranties. He must agree to keep an itemized record of all property including traveling salesmen's stocks. He must also agree to maintain, in so far as possible, watchmen and other protection devices mentioned in his application for the policy.

The insured must agree to and cause others to submit to examinations under oath concerning all matters connected with a claim, and to produce for examination all account books, bills, and invoices.

ENDORSEMENTS.—A number of endorsements may be used to amend policy provisions:

1. By endorsement, air mail and air express shipments may be covered. This endorsement requires air mail to be registered and express shipments to be sealed.
2. Except when prohibited by statute, the policy may be endorsed to cover furniture, fixtures, machinery, tools, patterns, moulds, models and dies in the insured's premises only, against the risks of fire, burglary, and theft.
3. By endorsement coverage may be extended to include money in the safe at the insured's premises. Liability attaches, however, only when the safe is actually broken open.
4. The company may eliminate by endorsement the clause requiring the insured to bear 20% of each loss caused by the smashing of a window.

5. By endorsement, the risk of fire at the insured's principal place of business may be specifically excluded if this coverage is not desired.

Bailee's Customers' Floater.—It is desirable for such bailees as warehousemen, public storers, dyers, cleaners, laundrymen, and other custodians who perform services to the property of others to insure the goods entrusted to them. This insurance serves a dual purpose. It furnishes direct protection to the owner of the goods and thereby enables the bailee to attract customers whose patronage could otherwise not be obtainable. Furthermore, it permits the bailee to avoid troublesome and costly disputes with his customers when loss occurs.

Generally these contracts appear as printed or typewritten endorsements attached to the inland transit policy, but it is not necessary to write the insurance in that manner. While bailee insurance may be written on any kind of bailed property, the forms issued to dyers and cleaners, laundrymen, and furriers are best known.

Dyers' and Cleaners' Floater.—The dyers' and cleaners' form offers coverage against direct loss on goods accepted by the insured for cleaning, pressing, repairing or renovating. Coverage extends over the premises of the insured, pick-up stations, and branch stores of agents as well as during actual transportation. This form excludes, however, goods accepted for laundering.

The following perils are covered by the dyers' and cleaners' form:

1. Fire and lightning, earthquake.
2. Explosion.
3. Accidental collision including the overturning of vehicles and collapse of bridges.
4. Theft, burglary, and hold-up.
5. Tornado, cyclone, and windstorm, including the perils of hail, rain, sleet, and snow, whether or not driven by wind.
6. Flood occasioned by the rising of streams.
7. Sprinkler leakage.

8. Transportation risks involving public carriers or mail service.
9. Marine perils including risks on ferries.
10. Confusion of goods, resulting from any of the foregoing hazards.

EXCLUSIONS.—Unless otherwise provided, the dyers' and cleaners' form offers no protection against the following articles and hazards:

1. Theft by any person employed by the insured whether or not occurring during hours of employment.
2. Mis-delivery, careless destruction of goods and other unaccountable losses, where there is no evidence that the cause is an insured peril.
3. Damage to goods held in storage or for which a storage charge is made.
4. Risks covered by other insurance which would attach if the policy had not been issued.
5. Goods and packages left on delivery vehicles overnight. When delivery vehicles are locked in the insured's private garage or in a building occupied by the insured, this exclusion does not apply. Goods and packages are not subject to this exclusion when in the custody of a common carrier.

PARTIAL COVERAGE OF STORED GOODS.—As above noted, the dyers' and cleaners' form excludes damage to goods held in storage or for which a storage charge is made. Goods held by the insured are not deemed to be in storage unless so ordered by the owner.

Goods accepted for storage on which a cleaning charge has been made are covered only while in process or in transportation by the insured between his plant or branch stores and agencies or customers.

ADJUSTMENT OF CLAIMS.—The company has the option of adjusting any loss and either pay the insured for the account of whom it may concern or pay the customer direct.

Any claim for losses occurring at the same time and aggre-

gating not more than a limited amount, may be adjusted by the insured. The company will reimburse the insured as soon as practicable upon receipt of satisfactory proof of loss.

The insured is required to keep an accurate record of his business and to report each month gross receipts whether or not collected, for the preceding month.

LIMIT OF LIABILITY.—The company's liability is limited to the amount which the insured is obliged to and actually does pay by reason of an insured peril. In no case does the liability exceed the cash value of the property at the time of loss, with proper deduction for depreciation. Furthermore, a limit is placed on the company's liability for any loss incurred at any one time from one or more perils. The company assumes liability, however, for any customary charges which the insured may have earned on the lost or damaged goods.

Bailee's Customers' Laundry Floater.—The bailee's customers' laundry form provides the same coverage for goods accepted by the insured for laundering as does the dyers' and cleaners' form for articles accepted for dyeing and cleaning. In summary, both policies insure articles against the hazards of fire, lightning, explosion, collision, theft, tornado, flood, sprinkler leakage, transportation, and confusion of goods resulting from these perils. Coverage in both policies includes the premises of the insured and transportation in the custody of a common carrier or in the insured's vehicles provided the vehicles are properly garaged overnight.

Furrier's Customers' Floater.—The furrier's customers' policy is issued to furriers, fur stores, cleaners, repairers, and similar custodians to cover the furs and garments trimmed with fur which customers leave with the insured for storage, alterations, repairing, cleaning, or remodeling, for which the insured has issued a receipt in which he agrees to insure the customer's property.

COVERAGE.—The furrier's customers' floater provides coverage while the property is in the custody of the furrier at his place of business; while in storage rooms, vaults, or safes at specified locations; and during transportation between the prem-

ises of the customer and the furrier. Stock belonging to the insured is not covered.

EXCLUSIONS.—This form is an all risk policy, including the insured's legal liability, but excludes the following hazards:

1. Gradual deterioration, moth, vermin, and inherent vice.
2. Damage sustained as a result of working upon the goods.
3. War, invasion, hostilities, rebellion, and insurrection.
4. Confiscation by order of any government or civil authority.
5. Risks of contraband and illegal transportation or trade.

OTHER INSURANCE.—If at the time of loss, there is other insurance which would attach had the floater not been effected, the furrier's customers' floater applies as excess insurance only after all other insurance is exhausted. This does not apply to insurance effected by the customer.

LIMIT OF LIABILITY.—The company is not liable for more than the amount stipulated in the insured's receipt as applying to the damaged article. This liability is further limited to the cost of repairing or replacing the article with material of like kind and quality. There is a limit of liability at each location for goods placed: (1) in storage rooms and vaults, and (2) outside of storage rooms and vaults.

At the option of the company losses may be adjusted and paid directly to the owner.

DUTIES OF INSURED.—The policyholder must agree to use reasonable diligence in maintaining protection safeguards enumerated in the application for insurance. He must further warrant that he will not issue certificates of insurance to customers except as authorized in the policy by endorsement.

In order to determine the extent of risk and the amount of premium, the company requires the insured to keep an accurate record of all receipts issued. This record must contain the customer's name and address and a description of each insured article and its value.

ENDORSEMENTS.—The furrier's customers' policy may be extended in certain states by attaching a certification or furrier's customers' endorsement. The insured is thereby permit-

ted to issue certifications or personal fur policies providing world-wide coverage to owners of furs insured under the furrier's customers' form.

The endorsement cannot be used independently of the furrier's customers' policy.

Installment Floater.—The sale of portable property on the installment plan, under a conditional contract of sale or lease has become so common that special policies have been devised to meet the seller's needs. These policies are of two kinds. One form protects the vendor's interest only, that is, the outstanding balance shown on the ledger. The other form, known as the dual interest or replacement value form, protects the interests of both vendor and vendee until the vendor's interest ceases.

The chief difference between the two forms of installment sales policy lies in the fact that where the vendor's interest only is insured, the insurer's liability is limited to the amount of the unpaid installments. Under the dual interest form, however, the company may be required to pay the full cost of repairing or replacing the damaged property, after deduction for depreciation. Under the insured's interest form, the premium decreases with every installment paid on the purchase price, while under the dual interest form, the premiums are paid on the full value of the property during the life of the policy.

DUAL INTEREST FORM.—The dual interest form of installment policy insures articles sold, rented, or leased. The installment sales policy is usually attached as a rider to the inland transit form.

COVERAGE.—The dual interest form covers the property against the following perils:

1. While in transit on land against loss or damage caused by fire, lightning, cyclone, tornado, flood (meaning rising navigable waters), collision of the conveyance on which the goods or merchandise is being transported, derailment, overturning of trucks, collapse of bridges, or collapse and subsidence of depots, stations, landing sheds, and platforms.

2. While in transit and waterborne against loss or damage caused by stranding, sinking, burning or collision, including general average and salvage charges for which the insured is legally liable.
3. While being conveyed to or from warerooms and to or from other buildings against loss or damage by breakage if amounting to a stipulated sum, but excluding all loss or damage due to scratching, marring, chipping, denting, bending, spotting, or discoloring.
4. While in buildings or residences of customers against all direct loss or damage caused by fire or lightning.

EXCLUSIONS.—The company is not liable for ;

1. Losses occurring in retail stores and public or private warehouses where merchandise is kept in storage or exhibition sale.
2. Damage caused by strikes, riots, civil commotion, war hazards, illicit or prohibited trade, contraband, and confiscation by order of any government or public authority.
3. Breakage of glass or other similar fragile property unless caused by an insured peril while in transit or on land except collapse of structure or by an insured peril while in transit and waterborne for insured perils.
4. Losses incurred as a result of failure on the part of the insured to exercise reasonable precautions during and after the disaster.

OTHER INSURANCE.—If the property is covered by other insurance which would attach if the floater had not been issued, the installment floater serves as excess insurance. This coverage is further limited to the extent of the insured's interest in the damaged property and to the amount stated in the policy.

Insurance covering ordinary household furniture purchased by the insured's customer is not considered specific insurance within the meaning of the installment policy.

LIMIT OF LIABILITY.—The company assumes liability for a specific amount in any one customer's premises or in any one casualty. When a part is lost or damaged, liability is limited to the actual cost of repairing or replacing the part.

The property is valued at the manufactured or wholesale cost plus delivery charges. For property sold or leased on terms by which the merchandise becomes the property of the lessee, the company liability is limited to the selling price or full rental value of the merchandise to purchasers.

DUTIES OF INSURED.—The insured must agree to keep accurate records of all installment contracts insured under the policy open for the inspection of representatives of the company during business hours. On a stated date of each month he must pay the premium based on the report for the preceding month.

He must report the total sales value of all property outstanding and not fully paid for as of the last day of the month. The policy may be voided if the insured fails to pay any premium on its due date.

Neon Sign Form.—When attached to the schedule property floater, the electric sign form provides protection for electric signs, such as neon and similar tube advertising signs. Each sign covered must be listed in a schedule showing type, lettering and actual value.

This endorsement covers all risks, except those mentioned specifically below, occurring within continental United States and Canada.

EXCLUSIONS.—The following hazards are excluded from coverage:

1. Breakage during installation or dismantling.
2. Breakage during transportation unless caused by fire, lightning, collision, or overturning of vehicles.
3. Short circuit or other electrical disturbances, exclusive of lightning. If fire ensues, however, the company is liable only for the loss caused by fire.
4. Losses caused by strikes, war hazards, inherent vices, defects, and neglect of the insured.

LIMIT OF LIABILITY.—The company's liability is limited to a specific amount on signs described in the schedule. This liability is determined by the actual cash value of the insured

property at the time of loss. The policy may also be subject to a deductible clause.

Horse and Wagon Floater.—Attached to the schedule property floater, the horse and wagon form is designed to cover horses, mules, horse and mule drawn vehicles, harness, saddlery, liveries, blankets and equipment and other live stock. Insurance is limited to a specified value and to losses occurring within the limits of the continental United States and Canada. Geographical coverage, however, may be extended by endorsement.

COVERAGE.—The policy covers the loss of horses and mules against death and destruction only and damages to vehicles and equipment caused directly by insured perils.

The following perils are covered by the horse and wagon floater :

1. Fire and lightning.
2. Collision, derailment and overturning of rail or motor vehicles. It should be noted that the coming together of railroad cars during coupling operations is not deemed a collision.
3. Rising of navigable waters and collapse of bridges (for vehicles and equipment).
4. Stranding, sinking, burning or collision of ferries, including general average and salvage charges.

EXCLUSIONS.—As in other inland marine floaters, the horse and wagon floater excludes losses resulting from civil commotion, strikes, lockouts, riots, labor disturbances, war hazards, illicit or prohibited trade, and confiscation by order of any government or public authority.

Contractor's Equipment Floater.—When attached to the schedule property floater, the contractor's equipment floater covers the equipment of contractors within specified territorial limits. The property and equipment thereon must be described in the schedule accompanying the policy.

COVERAGE.—The policy covers contractor's property while in transit on land conveyances against the following perils :

1. Fire and lightning.
2. Cyclone, tornado and flood.
3. Collapse of highway bridges.
4. Collision, derailment or overturning of transporting conveyances.

Property while elsewhere on land is covered against risks of fire, lightning, cyclone, tornado, and flood.

The contractor's equipment floater includes an electrical equipment clause excluding damages to dynamos, exciters, lamps, switches, motors and other electrical devices by reason of electrical currents or lightning. When fire ensues, however, the company is liable for the loss resulting directly from fire.

Bridge Policies.—Bridges are considered subjects for inland marine insurance because they are an aid to transportation. Three forms are available to cover modern concrete and steel bridges: bridge builder's risk, bridge property damage, and bridge use and occupancy policy.

Bridge Builder's Risk Form.—Under the builder's risk form, coverage continues during the process of erection until the bridge is completed and accepted by the owners or until the policy terminates, whichever is sooner.

The form in common use insures against direct loss or damage caused by fire, lightning, floods, rising waters, ice, collision, explosion, strikes, riots, civil commotions, malicious damage, tornado, windstorm and earthquake. Under collisions, it should be noted that collision with construction equipment is not covered.

In the case of loss or damage, there is a specified maximum limit of liability to the bridge and the approaches while in the course of construction, including foundations, additions, attachments, and all fixtures belonging to and constituting a part of the insured bridge, including temporary trestles and all construction materials while situated at a location specified in the schedule.

EXCLUSIONS.—The following hazards are excluded from coverage:

1. Loss or damage arising from war, hostilities and illicit trade.
2. Loss during suspension of construction by ordinances, law, or governmental order.
3. Loss occasioned by suspension, lapse, termination or cancellation of any license, lease or permit or by an injunction or process of a court.

It should be noted that suspensions of construction caused directly by insured perils are not excluded.

4. Loss of use or occupancy under any circumstances.

LIMIT OF LIABILITY.—The company's liability is limited to that percentage of the actual loss sustained, which the last reported values of the insured property bears to the actual value of the covered property. On each loss limit, the company's liability is its due proportion of the loss less a specified per cent of the total amount at risk. In the event of total loss, however, no percentage deduction is made.

MACHINERY CLAUSE.—Like the inland transit form, the bridge builder's risk form contains the machinery clause which limits liability on a machine consisting of several parts. In event of partial loss, the company is liable only for the insured value of the damaged part.

FORFEITURE CLAUSE.—The bridge builder's risk form provides that the policy shall be void under the following conditions, unless otherwise provided by written agreement:

1. If the interest of the insured be other than what is specified in the policy.
2. If, with the knowledge of the insured, foreclosure proceedings are commenced or notice is given of sale of any insured property, by reason of any mortgage or trust deed.
3. If any change occurs in the interest, title or possession of the subject of insurance.
4. If the policy is assigned or transferred.
5. If the insured goes into bankruptcy or receivership.

Bridge Property Damage Form.—The bridge property damage form covers a specific bridge at a specified location.

The company agrees that, at the time the policy is written, the insured property is deemed of sound construction. The provisions of the policy are similar to the previous form and include loss due to collapse.

Under the policy, there can be neither abandonment of the property to the company nor constructive loss.

Bridge Use and Occupancy Form.—Use and occupancy insurance is provided against financial losses which may result from inability to operate a bridge due to perils as described in the bridge builder's risk form.

COVERAGE.—This form covers the use and occupancy of bridges and approaches when the perils mentioned in the bridge property damage policy are the direct cause of total or partial suspension of use for not less than seven days. The company's liability is limited to the actual loss sustained of the normal income from tolls and other operating sources, less such maintenance and operating charges and expenses as do not necessarily continue during the period of suspension of use.

Each accident constitutes a separate claim. Seven days of total or partial suspension of use are deductible from the number of days of suspension on which a claim may be based.

The company's liability under any claim terminates at the time when the bridge could with reasonable diligence and dispatch be restored to use. It should be noted that the expiration date of the policy does not terminate insurance during the period of suspension.

The company agrees that the insured property is of sound construction at the time the policy is written.

EXCLUSIONS.—Suspensions caused by the following perils are not covered by the bridge use and occupancy form.

1. Any ordinance, law, and governmental or municipal order prohibiting or regulating the construction or repair of insured property.
2. Suspension, lapse, cancellation and refusal of or delay in granting a license, lease or permit, by reason of an injunction or court process.

3. Failure of the insured to maintain the insured property in a thorough state of repair.
4. War risks as excluded in the other bridge policies.

If the suspension period is extended by any of these perils, the company is not liable for the increase. Furthermore, the policy becomes void for change of interest under conditions similar to those enumerated in the bridge builder's risk form.

The use and occupancy clauses in the fire insurance policy and the bridge use and occupancy form are similar with respect to partial liability, resumption of operation, and use of surplus machinery.

CHAPTER 13

ACCIDENT AND HEALTH INSURANCE

Purpose.—Life insurance protects a man's dependents after his death, but the suffering and financial hardship resulting from his inability to earn a living may be greater than those after his death. Medical expenses are frequently high and the incapacitated person is often an additional drain upon the resources of the family. Losses owing to accidents and disease have reached such proportions as to create a major problem to be solved by community effort. Accident and health insurance policies usually written on a yearly basis and less frequently for shorter periods, are provided to meet this need.

Benefit Provisions.—While no complete uniformity exists in the benefit provisions of policies offered by various companies, certain uniform classifications are employed for rate-making purposes. Furthermore, certain standard provisions must, in compliance with law, appear in these policies.

Accident policies may contain benefit sections indemnifying the insured for loss of life and of specific parts of the body, such as a hand; for partial and total disability; and for sunstroke and other illnesses which the policy defines as accidents. Other benefit sections may provide for the payment of a specific indemnity at the option of the insured regardless of the length of the disability period. To meet other needs, various policies provided medical and surgical benefits, hospital and nurse indemnity. The policies may also provide double indemnity benefits for certain accidents such as injury in an elevator and indemnity for aircraft accidents.

Health policy benefits may include indemnity for loss of time, and hospital, nurse, and surgical fees.

Inasmuch as companies do not offer similar policies, the following important forms of several companies have been selected for discussion:

1. Accident coverage.
2. Accident coverage plus reimbursement for medical, surgical, nurse, and hospital costs.
3. Accidental death and dismemberment.
4. Health coverage—non-confinement form.
5. Health coverage—confinement form.
6. Hospitalization policy.

Accident Coverage

Provisions of Accident Form.—The accident form provides indemnity for loss of life, limbs, sight, speech, hearing or time resulting from accidental bodily injury, fatal or non-fatal, as specified in the following schedules.

SCHEDULE I.—SPECIFIC LOSS INDEMNITY.—If the injury continuously and totally disables the insured at any time within two weeks from the accident, the company will pay the sum stipulated in the policy for the specific loss provided the loss occurs within two hundred weeks from date of accident. Alternatively, the company is liable for the specific amount, when the injury, irrespective of total disability, directly results in the specific loss within six months from the time of the accident.

In the event of any of the following specific losses, the principal sum named in the policy may be received :

1. Loss of life.
2. Both hands by actual separation at or above the wrists.
3. Both feet by actual separation at or above the ankle joints.
4. One hand and one foot by actual separation at or above wrist and ankle joints.
5. Entire sight of both eyes if irrecoverably lost.
6. Entire sight of one eye, if irrecoverably lost and one hand at or above the wrist by severance.
7. Entire sight of one eye, if irrecoverably lost, and one foot at or above the ankle joint by severance.
8. Speech and hearing, if entire and irrecoverable.

The extent of the company's liability is determined by the seriousness of the loss. Two-thirds of the principal sum is recoverable for separation of one leg from the knee joint or of one arm from the elbow joint. For the actual separation of one hand from the wrist joint or one foot from the ankle joint,

however, the liability is reduced to one-half of the principal sum. The same indemnity holds for the complete and permanent loss of speech or hearing.

When the insured irrevocably loses the entire sight of one eye, the company's liability is limited to one-third of the principal sum. The company will pay only one-sixth of the principal sum, however, for permanently stiff or rigid elbow and knee joints. The same percentage of loss applies for separation of thumb and index finger at or above the metacarp-phalangeal joints. In event of a permanently stiff elbow or knee joint, only one-twelfth the principal sum will be paid. In addition, the company will pay the weekly indemnity as provided in Schedule II between the date of the accident and the date of the loss. Not more than one of the amounts (the greater) named under specific losses is payable for injuries resulting from one loss.

In the event of loss of both hands or of both feet or the sight of both eyes as described above, if the insured elects in writing, the company will pay in lieu of the specific indemnity the weekly indemnity as long as the insured is alive.

Specific and Permanent Losses Clause. No payment is made for more than one loss under Schedule I. Any payment under Schedule I terminates the policy, which must be surrendered.

SCHEDULE II—TOTAL OR PARTIAL DISABILITY.—When injuries cause wholly and continuous total disability beginning within two weeks from the date of the accident, the company will pay the insured a specified weekly accident indemnity. This payment continues as long as the insured is unable to perform any of the duties pertaining to his occupation.

If under the same circumstances, the insured is prevented from performing one or more material duties of his occupation, he is entitled to one-half the specified weekly indemnity. This payment is made weekly during his partial incapacity for a period not exceeding 52 consecutive weeks.

SCHEDULE III—SUNSTROKE, FREEZING, HYDROPHOBIA, ASPHYXIATION, AND BLOOD POISONING.—Losses resulting from sunstroke, freezing, hydrophobia, and asphyxiation are covered by this policy.

The policy provides that the risks mentioned in this schedule are covered by the policy as accidents when due solely to the causes enumerated in this schedule. Injury due to blood poisoning is also covered.

SCHEDULE IV—OPTIONAL INDEMNITIES.—For injuries listed in Schedule IV, the insured may take the amount listed in this schedule in lieu of all other indemnity except as provided in Schedule VII. Only one such indemnity is payable for any one accident. The insured must indicate his choice of this mode of settlement in writing within 20 days from the date of the accident.

The amounts specified in the following schedule are based on a weekly indemnity of \$25. For weekly indemnities of more or less than \$25, payments vary proportionately.

FOR LOSS OF:

One or More Entire Fingers.....	\$150
One or More Entire Toes.....	200

FOR COMPLETE DISLOCATION OF:

Shoulder.....	100
Elbow.....	100
Wrist.....	125
Hip.....	300
Knee.....	150
Two or More Bones of the Foot (not toes).....	150
Two or More Toes.....	50
Two or More Fingers.....	50
Ankle.....	150

FOR COMPLETE FRACTURE OF:

Skull, Both Tables.....	325
Lower Jaw.....	80
Collar Bone.....	160
Pelvis.....	250
Thigh.....	300
Leg (tibia and fibula).....	200
Leg (one bone).....	100
Knee Cap.....	200
Arm, between Elbow and Wrist (both bones).....	160
Arm, between the Elbow and Wrist (one bone).....	100
Arm, between Elbow and Shoulder.....	160
Two or More Ribs.....	100
Foot (two or more bones—not toes).....	125
Hand (two or more bones—not fingers).....	125
Two or More Toes.....	100
Two or More Fingers.....	100
Scapula (shoulder blade).....	160

SCHEDULE V—DOUBLE INDEMNITY.—The amount payable under Schedules I, II, and IV are doubled when the injury is sustained by the insured under the following circumstances:

1. As passenger in a public conveyance provided by a common carrier for passenger service, including the time of boarding and alighting on platforms, steps, or running boards.
2. As a passenger on elevators except those in mines.
3. Destruction by fire of a building, except when the insured is in the structure as a fireman on duty.
4. Lightning, cyclone, or tornado.
5. Explosion of steam boiler.
6. Collapse of the walls of a building while the insured is in the structure.

SCHEDULE VI—NON-DISABLING INJURIES.—If an injury requires immediate medical or surgical attention, but does not disable the insured or entitle him to any other benefit, the company will reimburse him for the cost of necessary medical or surgical service. This reimbursement, however, cannot exceed the single weekly accident indemnity for one week. Furthermore, the attending physician's or surgeon's receipt must be filed with the company within 90 days from the date of the injury.

SCHEDULE VII—SURGICAL OPERATIONS.—If an injury requires any surgical operation listed in this schedule within 90 days from the time of the accident, the insured is entitled to receive a sum specified for the operation. This payment is added to any other indemnity provided in the policy.

Only one operation indemnity is payable as the result of any one cause of disability. No reimbursement, however, is made for operations necessitated by disease or bodily condition contracted or existing prior to the issuance of the policy.

The amounts specified in the following schedule are based on a weekly indemnity of \$25 and hence payments are increased or reduced proportionately as the weekly indemnity varies from \$25.

AMPUTATION OF:

Foot, Hand, or Forearm.....	\$ 25
Leg at or above Knee.....	50
Arm above Elbow.....	50
Thigh Involving Hip Joint.....	100
One or More Entire Fingers.....	10
One or More Entire Toes.....	10

REDUCTION OF DISLOCATION OF:

Wrist or Lower Jaw.....	15
Shoulder, Elbow, Hip, Knee, or Ankle.....	25
Fingers, One or More.....	10

EXCISION OF:

Shoulder, Hip, or Knee Joint.....	100
Elbow, Wrist, or Ankle Joint.....	50
Eye.....	50

REDUCTION OF FRACTURE OF:

Lower Jaw, Collar Bone, or Shoulder Blade.....	25
Breast Bone or Nose.....	10
Rib or Ribs.....	10
Rib or Ribs (resection).....	50
Upper Arm.....	25
Forearm, One or Both Bones.....	25
Wrist or Hand.....	15
One or More Fingers.....	10
Any of the Bones of Pelvis or Sacrum.....	50
Coccyx.....	10
Thigh.....	75
Knee Cap (Open Operation).....	50
Knee Cap (Fixation).....	25
One Leg Bone.....	25
Both Leg Bones.....	50
Two or More Bones of Foot, Not Toes.....	15
One or More Toes.....	10
Laparotomy (opening of the abdominal cavity for an operation on any organ contained therein).....	100

INCISION FOR:

Synovitis (inflammation of the lining membrane of a joint).....	25
Hydrophobia, Pasteur Treatment.....	50
Gunshot Wounds (not necessitating amputation or laparotomy).....	25
Skull Trephining for Fracture.....	100
Suturing Wounds.....	5

SCHEDULE VIII—HOSPITAL EXPENSES.—If an injury for which the insured is entitled to weekly indemnity necessitates hospitalization within 90 days from commencement of disability, the company will pay hospital expenses weekly in addition

to other benefits. The amount of each payment cannot exceed the amount payable under the policy as a single weekly indemnity. Payments continue weekly while the insured is confined in the hospital for a period not exceeding 15 consecutive weeks.

SCHEDULE IX—GRADUATE NURSE FEES.—An injury for which the insured is entitled to weekly indemnity for total disability may require the care of a graduate nurse. If within 90 days from the commencement of disability, the insured is attended by a graduate nurse and no claim is made for hospital expenses, the company will reimburse him for the amount thus expended. This indemnity is limited to an amount not in excess of the single weekly indemnity per week over a period of not more than 15 consecutive weeks.

SCHEDULE X—AIR PASSENGER INJURIES.—The company will pay a single indemnity for any specified loss resulting from injuries which the insured sustains as a fare-paying passenger in a licensed aircraft. The aircraft must be provided by an incorporated common carrier for passenger service and operated on a published schedule by a licensed transport pilot between two definitely established airports.

SCHEDULE XI—IDENTIFICATION INDEMNITY.—The insured may sustain injuries which render him physically unable to communicate with friends and relatives. Upon receipt of a telegram or other message giving the policy number, the company will immediately transmit any information concerning him to friends and relatives. It will also pay, in addition to other indemnity, all expenses, not exceeding \$100, necessary to place the insured in the care of those interested in his recovery.

Exclusions.—The policy does not cover accidental bodily injury caused or contributed to directly or indirectly by acts of war, sickness, disease, ptomaines, or bacterial infections. This exclusion does not apply to pyogenic infections which occur through an accidental cut or wound.

No coverage is provided for disappearances and for losses from any acts which would be deemed intentional if committed by the insured while in possession of all mental faculties. Fur-

thermore, accidents on aerial devices and conveyances are not covered except as provided in Schedule X.

Application as Part of Contract.—The copy of the application endorsed on the policy is made a part of the policy contract. No provision of the charter, constitution, or by-laws of the company not included in the policy can void the policy or be used in evidence in any legal proceedings under the policy.

Standard Provisions Required by Law.—Certain standard provisions which the law requires are made part of each accident policy. These provisions, which are subject to some variations permitted by statute, may be summarized as follows:

CHANGE OF OCCUPATION.—If injury occurs after the insured has changed his employment to a more hazardous occupation, the company will pay only that portion of the indemnity which the premium paid would have purchased at the rate for the more hazardous occupation. The rule does not apply if the injury is sustained while the insured is engaged in recreation or in ordinary duties around his residence.

The premium rates and risk classification mentioned in the policy signify those last filed with the state official supervising insurance, in those states requiring such filing. If, however, filing is not required in the state in which the insured resides, then the company's rates and risk classification last made effective by it in that state will determine the company's liability.

ALTERATION OF POLICY.—Statements of the applicant not included in the policy cannot void the policy or be used in any legal proceedings under the policy.

Furthermore, agents have no authority to waive any provisions or alter the policy in any way. Changes are valid only when approved by an executive officer of the company and endorsed on the policy.

REINSTATEMENT OF POLICY.—If default is made in the payment of the agreed premium for the policy, the subsequent acceptance of a premium by the company or by any of its duly authorized agents reinstates the policy, but only to cover loss resulting from accidental injury thereafter sustained.

TIME OF NOTICE OF CLAIM.—Written notice of injuries on which claims may be based must be given to the company within 20 days after the date of the accident. Notice of accidental death, however, must be given immediately.

SUFFICIENCY OF NOTICE.—Any notice given by or on behalf of the insured or his beneficiary with particulars sufficient to identify the insured is deemed to be notice to the company. It may be presented at the designated office of the company or to any authorized agent.

Failure to give notice within the time provided does not invalidate any claim if it can be shown that notice was given as soon as was reasonably possible.

FORM FOR PROOF OF LOSS.—Upon receiving notice of loss, the company must provide the claimant with a special form for policy proof of loss. If this form is not furnished within 15 days after notice, the claimant is deemed to have complied with the filing requirement upon submitting written proof covering the occurrence, character and extent of the loss. This written statement is subject to the time limit fixed in the policy for filing proof of loss.

TIME FOR FILING PROOF OF LOSS.—In case of claim for loss of time from disability, affirmative proof of loss must be furnished to the company at its designated office within ninety days after the termination of the period for which the company is liable. Claims for other losses require filing within 90 days after the date of loss.

MEDICAL EXAMINATIONS.—The company must be granted the right and opportunity to examine the person of the insured as frequently as it may reasonably require during the pendency of claim under the policy. Furthermore, when permitted by law, it may make an autopsy in case of death.

TIME OF SUIT.—No action at law or in equity may be brought to recover on the policy prior to the expiration of 60 days after proof of loss has been filed in accordance with the requirements of the policy. Furthermore, action must be brought within two years from expiration of the time within which proof of loss is required by the policy.

LIMITATIONS CONTROLLED BY STATUTE.—Any time limitation of the policy with respect to notice of claim or proof of loss must not be less than the minimum period prescribed by the laws of the states in which the insured resides. When the policy specifies shorter limits, they are automatically extended to the minimum legal limits.

CANCELLATION.—When the insured changes to a less hazardous occupation, the insured may surrender the policy by a written request for cancellation. The company must then return the unearned premium.

Optional Provisions.—In addition to legally required provisions, the accident policy may include certain optional provisions relative to reduction of indemnity and premium, age limits, other insurance and cancellation.

REDUCTION OF INDEMNITY AND PREMIUM.—If the insured carries other insurance covering the same loss without giving written notice to the company, the latter is liable only for that portion of the stated indemnity as that indemnity bears to the aggregate indemnity in all policies covering the loss. The company must also return the excess premium paid over the amount required for the reduced indemnity.

Upon the settlement of a claim, any premium that is due and unpaid or covered by any note or written order may be deducted from the proceeds.

OTHER INSURANCE WITH SAME COMPANY.—An optional standard provision relative to other insurance with the same company may be included in one of three forms. In the blank spaces of one of the three following clauses, the insurer must insert the maximum limit of indemnity prescribed by the company's classification of risks and filed as required by law:

If a like policy or policies, previously issued by the insurer to the insured be in force concurrently herewith, making the aggregate indemnity in excess of \$. . . the excess insurance is void and all premiums paid for such excess will be returned to the insured.

If a like policy or policies, previously issued by the insurer to the insured be in force concurrently herewith, making the aggregate indemnity for loss of time on account of disability in excess of \$. . .

weekly, the excess insurance will be void and all premiums paid for such excess will be returned to the insured.

If a like policy or policies, previously issued by the company to the insured be in force concurrently herewith, making the aggregate indemnity for loss other than that of the time on account of disability in excess of \$. . . or the aggregate indemnity for loss of time on account of disability in excess of \$. . . weekly, the excess of either kind shall be void and all premiums paid for such excess will be returned to the insured.

AGE LIMITS.—The policy may include an optional standard provision regarding age limits which may be any number of years the company may elect. These age limits must be indicated in the blank spaces of the following clause :

The insurance under this policy does not cover any person under the age of . . . years nor over the age of . . . years. Any premium paid to the insurer for any period not covered by this policy will be returned upon request.

CANCELLATION.—The company may cancel the policy at any time by written notice delivered to the insured or mailed to his last known address as shown in the company's records. Cash or a check for the unearned portion of paid premiums must accompany the cancellation notice. Claims originating prior to cancellation, however, are in no case prejudiced.

Accident Plus Reimbursement Coverage.—The accident policy just described provides for limited indemnity for medical, surgical, hospital, and nurse fees. Another policy may be obtained, similar in form but containing a liberal reimbursement provision. This special section in effect seems to make a more liberal refund of expenses incurred for physician, nurse, hospitalization, and surgical operations.

INDEMNITY PROVISION.—Coverage is provided when an injury requires medical or surgical treatment, hospital confinement, or the employment of a trained nurse, within a period of 180 days from the date of accident. Under these circumstances, the company will pay, in addition to other indemnities due the insured, the actual expense involved. This liability, however, cannot exceed a limit of \$1,000 when the single weekly indem-

nity of the policy is \$50. For weekly indemnities greater or less than \$50, the limit of reimbursement is varied proportionately. In no case, however, is payment made under this section for expenses incurred on account of hernia.

Accident, Death and Dismemberment.—In contrast to a policy providing for specific benefits and weekly indemnities, a limited policy is available providing indemnities only for death and dismemberment. Like the first accident policy discussed, the accident, death, and dismemberment form affords the principal sum, in whole or part, for specific losses.

Health Insurance

Health insurance is generally written in connection with accident policies. It is thus possible to obtain one policy providing both accident and health indemnities. Health policies are available in the non-confinement and confinement forms.

Health Non-confinement Policy.—The insured is entitled under the non-confinement policy to a weekly sickness indemnity of a specified sum for a stipulated period of time. The policyholder is thus indemnified against disability resulting directly from illness contracted during the term of the policy. The amounts of the various indemnities are stated in five separate schedules.

SCHEDULE I—LOSS OF TIME FROM TOTAL DISABILITY.—If any sickness covered by the health policy prevents the insured from doing any work in his occupation, the company will pay him the weekly sickness indemnity specified in the policy. Payments begin after the first 14 days of disability and continue during disability for a period not exceeding 52 consecutive weeks.

SCHEDULE II—SPECIFIC LOSSES.—Schedule II applies when specific losses are sustained as a result of sickness during the period of disability covered by Schedule I. If the insured survives the period of 52 consecutive weeks and it is subsequently established by competent medical authority that the specific loss is permanent and total, the company agrees to pay the largest

indemnity specified in the following schedule for any one of the specific losses :

SPECIFIC LOSS SCHEDULE

Sight of Both Eyes.....	100 Weeks
Use of Both Feet and Hands.....	100 Weeks
Use of Both Hands.....	100 Weeks
Use of Both Feet.....	60 Weeks
Use of One Foot and One Hand.....	60 Weeks
Use of One Foot.....	50 Weeks
Use of Right Hand.....	50 Weeks
Sight of One Eye.....	50 Weeks
Speech, or Hearing of Both Ears.....	30 Weeks
Use of Left Hand.....	25 Weeks

To receive benefits under this schedule, the insured must so elect in writing within 30 days from the date the total and irrevocable character of the loss is established.

SCHEDULE III—HOSPITALIZATION.—This schedule applies when the insured must be removed to a hospital within three months from the commencement of an illness covered only by the weekly indemnity provision of Schedule I. In the event that no claim is made for nurses' fees, the company will pay the insured one-half of the weekly indemnity specified in the policy during confinement for a period not exceeding 20 weeks. This payment is in addition to the weekly indemnity payable for his illness.

SCHEDULE IV—NURSES' FEES.—If within three months from the commencement of illness, the services of a graduate nurse are required, the company will pay for the nurse's services for a period not exceeding 20 weeks. This indemnity is in addition to the weekly indemnity specified in the policy and in no case can exceed 50% of the latter. Furthermore, this indemnity is not allowed if a claim is made for hospital expenses.

SCHEDULE V—SURGICAL OPERATION FEES.—If within 90 days from the beginning of illness, a surgical operation is required, the company will pay a scheduled sum for the operation in addition to sickness benefits. Payment is made only for the first operation resulting from any one sickness. Furthermore, the insured is not entitled to indemnity, if the operation is ne-

cessitated by a bodily condition which existed prior to the issuance of the policy.

The amounts specified in the following schedule are based on a weekly indemnity of \$50 and must be adjusted proportionately for weekly indemnities of greater or lesser amounts:

SCHEDULE OF OPERATIONS

Opening the Abdominal Cavity (Laparotomy) for:	
Appendicitis or Any Operation on Any Organ (tapping excluded).....	\$200
Fixation or Removal of Kidney.....	200
Tapping of Abdomen or Bladder.....	50
Rectal Operations:	
Excision or Ligation of Hemorrhoids (internal or external)	50
Operation for Prolapsed Rectum.....	50
Operation for Fistula in Ano.....	50
Excision of Rectal Polypus.....	50
Excision of, or Colostomy for Malignant Rectal Growth.	200
Any Cutting Operation on Bladder (excluding tapping)...	200
Ligation of Artery for Aneurism.....	100
Ligation or Excision of Varicose Veins.....	50
Acupressure, Litigation, or Excision for Varicocele.....	50
Bronchotomy, Thyrotomy, Saryngotomy, Laryngo-	
Tracheotomy, or Tracheotomy.....	100
Esophagotomy.....	200
Incision of Abscess, Boil, Felon, or Carbuncle.....	10
Minor Operation on Eye, Ear, Nose, or Throat.....	20
Removal of Ingrowing Toe Nail.....	20
Incision and Curetting Cystic Tumor of Tendon Sheath...	30
Incision or Excision of Hydrocele Sac, or Tapping Same...	50
Extirpation of Benign Tumor.....	30
Extirpation of Malignant Tumor.....	100
Sesquestrotomy (removal of dead bone).....	70
Skull Trephining.....	200
Curetting for Bone Ulcer.....	30
Operating for Mastoiditis.....	100
Incision for Synovitis (inflammation of the lining membrane of a joint).....	50
Any Cutting Operation for the Radical Cure of the Reducible, Irreducible, or Strangulated Forms of Abdominal Hernia.....	160

Health Confinement Policy.—The confinement policy is similar in its general provisions to the non-confinement policy, but carries additional provisions relative to confinement. If, as the direct result of disease, the insured is wholly and continuously incapacitated, confined to his house, and prevented from

performing any duty pertaining to his occupation, the company will pay a specified weekly indemnity for the disability and confinement. One-half of the weekly indemnity will be paid if the insured is not confined to his house. The limit in both cases is 52 consecutive payments.

EXCLUSIONS.—The company is not liable for disability resulting from any disease for which the insured is not treated by a physician. Furthermore, the policy is subject to a waiting-period provision which excludes diseases, beginning within 14 days from noon of the date of the policy. The confinement policies may be issued eliminating the waiting period, so that the indemnity provisions commence from the date of the policy.

STANDARD PROVISIONS.—Health policies must contain standard provisions similar to those required for accident policies as well as several others. Written notice of sickness on which a claim may be based must be given to the company within 10 days from the starting date of disability. Furthermore, if the insured fails to pay the required premiums, subsequent acceptance of a premium reinstates the policy only for illnesses beginning more than 10 days after acceptance.

OPTIONAL PROVISIONS.—The optional provisions mentioned in connection with the accident policy may apply on forms providing combined accident and health benefits.

Hospitalization Policy.—The hospitalization policy attempts to meet hospital costs for individuals at a fixed annual rate.

COVERAGE.—The policy covers against loss due to hospital residence (a) resulting from bodily injuries sustained while the policy is in force and effected solely through accidental means, (b) resulting from sickness beginning after the policy has been in force for not less than 30 days from its date and causing loss, commencing while the policy is in force.

INDEMNITIES.—The policy provides for :

(a) Hospital indemnity of \$5 per day for the period the insured is a resident patient confined within an incorporated or licensed hospital, but not to exceed 30 days in any 12 consecutive months. However, hospitalization for maternity cases is restricted to 10 days, but only for those cases where the insurance has been in effect continuously upon the individual for not less than 10 months.

(b) X-ray indemnity of \$5 for necessary X-ray examinations (excluding X-ray of teeth) while confined as a resident patient in an incorporated or licensed hospital as the result of any one disability, in any 12 consecutive months.

(c) Operating room indemnity of \$10 limit for operating room charges, while confined as a resident patient in an incorporated or licensed hospital, in any 12 consecutive months.

(d) Anaesthetic indemnity of \$10 limit for anaesthetic, while confined as a resident patient in an incorporated or licensed hospital, in any 12 consecutive months.

EXCLUSIONS.—The policy does not cover: (a) diseases venereal in origin, hernia, pregnancy or miscarriage or any attempt at suicide or self-destruction while sane or insane; (b) hospital expenses for sickness or accident occurring outside the limits of the United States of America, or Canada, or while engaged in military or naval service; (c) when the immediate and contributing cause is due to either injury or disease which had its inception prior to the issuance of the policy, or caused by mental derangement of the insured, simple rest cure or for diagnostic work, which could be performed by the attending physician outside a hospital.

Miscellaneous Policies

Many companies issue policies designed to meet particular needs. One such type contains an increasing indemnity provision: Commencing with the payment of the second month's premium, each consecutive month immediately preceding date of accident the company will pay 1% in addition to accident benefit provided for in the policy subject to a limit of 50%.

Other policies are issued with limited provisions to meet the needs of industrial workers. Still others are written designed to cover accidents arising from operation of an automobile.

Automobile Accident Policy.—This policy covers the insured against accidents under the following circumstances:

1. Cranking, demonstrating, riding in, or driving a private passenger automobile, which excludes vehicles carrying passengers for hire or transporting merchandise for business purposes.

2. Riding as a fare-paying passenger in an automobile bus, stage, or taxicab operated by a licensed common carrier solely for the transportation of passengers.

3. Being struck or run over by a moving automobile while on a public highway.

4. Burning or explosion of any automobile, whether privately owned or operated by a licensed common carrier.

5. Injury resulting from contact with the attached parts of his own private passenger automobile while being repaired by the insured.

6. Injury while changing a tire on the insured's private passenger automobile.

Premium Charge.—The premium for accident and health insurance is based on the occupational hazards of the applicant. All occupations are divided into grades, identified by name and number or symbol. Grades used by several companies are:

A—executive, accountant; B—outside salesman, factory supervisor; C—automobile salesman (not repairing), golf professional; D—soda dispenser, carpet layer; E—automobile filling station attendant, electrician wiring building (inside work only); F—garage mechanic, telephone lineman; G—electrician wiring building (outside work), shoe factory laborer; H—house wrecker, steel riveter.

The classification of risks takes into account: (1) extent of exposure to accidental injury; (2) nature of the work performed; (3) probable effect of injury on duration of disability.

Underwriting Problems.—Policies are issued usually to persons engaged in remunerative occupations and steadily employed. Persons who are not employed during the entire year, such as actors, farmers, and teachers, may present problems of malingering. Students, actors, and musicians (if insured) are frequently insured only against dismemberment or accidental death, and the policy does not provide for weekly benefits.

Non-cancellable Accident and Health Insurance.—The policies previously described are written for limited periods, as for example, one year. The insurance company has the right to cancel the policy or refuse to renew the policy. Therefore, if the insured is injured or disabled he may not be able to receive further benefits at the time when he needs such benefits. This may be avoided by the non-cancellable accident and health policy which is issued by some companies to carefully selected risks. The advantage of this policy form is that the insured knows when he purchases the non-cancellable accident and health policy that he will be protected against accident or health loss

occurring during the productive period of his life since the insured will be protected against accidents or illness prior to a stipulated age, for example, 60. In order to avoid payment of claims which last a short period of time, the policy may provide for a waiting period during which time the company is not liable. This waiting period varies and may be, for example, one month or longer. If injury or illness occurs during this period, the company will pay benefit for the remainder of his life subject to the terms of the policy. Various policy forms are issued and, except for standard provisions required by law, are not uniform. For illustrative purposes, reference will be made to the policy of one company. Under this policy, the company is liable for bodily injuries caused by accidental means except suicide, while sane or insane, and for diseases subject to the following provisions:

1. **PRINCIPAL SUM.**—The principal sum will be paid for the loss of life, both eyes, both hands, both feet, one hand and one foot; one-half the principal sum for either hand or either foot and one-third the principal sum for either eye. The loss of hand means severance at or above the wrist. Loss of foot means severance at or above the ankle bone, and loss of eye means total or irrecoverable loss of entire sight. The amount paid for such injury resulting from one accident is in lieu of all other indemnity and must occur within 13 weeks from the date of accident.

2. **DOUBLE INDEMNITY.**—The company will pay double indemnity for bodily injuries occurring while the insured is riding as a fare-paying passenger within the enclosed part of any railway or street railway passenger car or bus operated on regular schedule between the designated stations provided by common carrier for passenger service only, caused by the wrecking of the conveyance, provided the injury continuously and wholly disables the insured (independently and exclusively of disease and all other causes) from the time of the accident and results in any of the above mentioned specific losses within 13 weeks.

3. **MONTHLY ACCIDENT INDEMNITY.**—If there is no specific loss but the injury results in loss of time, the company

will pay beginning after a stipulated waiting period a monthly indemnity as long as the insured lives and total loss of time continues. If the insured is unable to perform some of the important duties he will be paid a portion of the monthly indemnity for a period not exceeding six consecutive months. The monthly indemnity is reduced 10% when the insured is or becomes 56 years of age with further reductions of an equal amount effective with each additional year of age to and including age 60. Double indemnity will be paid for travel accidents as explained above.

4. MEDICAL ATTENDANCE.—If the injury requires immediate medical or surgical treatment by a physician and no other claim is made by the insured for the injuries, the company will reimburse the insured for the cost of the treatment subject to a stipulated amount.

5. SEPTIC INFECTION.—If the injury results in septic infection or blood poisoning, the disability or losses following are deemed to be an accident and indemnity will be paid in full for loss of life, limb, sight, or time.

6. AIR TRAVEL COVERAGE.—The policy provides air travel coverage similar to the other accident policies previously described.

7. ILLNESS INDEMNITY.—For total disability which results from disease, the cause of which originates more than 30 days after the effective date of the policy, the company will pay beginning after the stipulated waiting period a monthly indemnity as long as the insured lives and suffers total disability and total loss of time from accident or disease which confines the insured continuously within doors and requires regular visits therein by a legally qualified physician. If the insured is not confined within doors but requires regular medical attention, a partial monthly indemnity will be paid. The monthly indemnity is reduced 10% when the insured is or becomes 56 years of age with further reductions of an equal amount effective with each additional year of age to and including age 60.

8. **HOSPITAL CONFINEMENT.**—If the insured is confined to a hospital as a result of bodily injury or disease, the company will pay from the first day of hospital confinement an additional amount monthly for the hospital confinement but not exceeding three months.

9. **NON-CANCELLABLE PROVISIONS.**—The policy continues in force until age 60, provided premiums are paid. The company is therefore liable for accident or illness which occurs prior to age 60.

10. **WAIVER OF PREMIUM.**—If the insured becomes permanently totally disabled due to bodily injury or sickness, no further premium is payable by the insured after the claim is filed and approved.

Group Accident and Health Insurance.—The benefits of the workmen's compensation law apply only during the time that the worker is employed at his trade. If he suffers an accident after his working hours, he cannot claim compensation under the law. Furthermore, the compensation law does not provide benefits for sickness. Group accident and health insurance has been introduced to meet these needs. This form of insurance offers protection to employees for accidents which are not covered under the workmen's compensation law, as well as sickness occurring during and after working hours.

As there is no standard group accident and health policy, the practice of the companies varies. The provisions of one group accident health policy will serve the purpose of illustration.

INDEMNITY PROVISIONS.—The group policy covers employees from accidental injury and sickness, excluding occupational diseases and injuries arising from the particular employment, which are covered by the workmen's compensation laws.

Each employee who has completed a probationary period of three months of service on the effective date of the policy is eligible for the group plan. Persons who have attained their seventieth anniversary, however, are excluded.

The amount of weekly indemnity is determined by the average weekly compensation paid by the employer during the preceding three months, as follows:

Weekly Compensation	Weekly Indemnity
Less than \$15.00.....	\$ 8.00
\$15.00 and less than \$22.50.....	10.00
\$22.50 and less than \$30.00.....	15.00
\$30.00 and less than \$40.00.....	20.00
\$40.00 and less than \$60.00.....	30.00
\$60.00 and over.....	40.00

INDEMNITY LIMITS.—The period during which benefits are payable excludes the first three days of disability in case of accidental bodily injuries and the first seven days in case of illness. In no event, however, are benefits paid for more than 13 weeks for any one disability.

Indemnity for disability caused by or resulting from any one pregnancy, including resulting childbirth or miscarriage, is limited to a period of not more than six weeks.

EXCLUSIONS.—In addition to accidental bodily injuries and occupational diseases covered by the workmen's compensation law, disabilities are excluded under the following circumstances:

1. When a physician is not in attendance.
2. When the disability results from self-inflicted injuries.
3. During the performance of military, naval, and police duties, whether in riots or in time of war.

RATES.—Practices governing the issuance of group accident and health insurance are similar to that of the group life insurance policy. As with group life insurance policies, a master policy is issued to the employer and a certificate to each employee, stating that he is covered.

Rates on group policies are quoted only after inspection of working conditions. Variations in rates depend upon (1) type of risk; (2) special occupational hazards; (3) unusually large percentage of older employees; (4) percentage of women to total number of employees; (5) waiting period.

Group Hospitalization Policy.—The group accident and health policy just discussed makes no provision for the reimbursement of injured employees who must pay for hospitalization. The employer may obtain this coverage through the hospitalization group policy.

While the group hospitalization policy is not standardized, it commonly provides for reimbursement within specified limits for charges incurred by an employee during his confinement for anaesthetics, laboratory, analyses, operating room fees, and hospital room and board.

EXCLUSIONS.—Coverage is subject to the following conditions and exclusions:

1. No payment will be made unless satisfactory evidence that charges were actually incurred, is submitted to the company upon its request prior to payment.

2. No payment for hospital room and board or other charges will be reimbursed unless recommended and approved by a legally qualified physician or surgeon.

3. No payment will be made for any confinement unless continuation of the confinement during the entire period was recommended and approved by a legally qualified physician or surgeon.

4. No reimbursement will be made for operation, surgical, medical or X-ray charges.

5. No payment will be made for hospital confinement resulting from accidental bodily injuries or disease arising from the employee's occupation.

6. No payment will be made for hospital confinement by reason of inflicted injury, while sane or insane, or because of injuries sustained or sickness contracted while performing military or naval service in time of war or riot, or while performing police duty as a member of any military or naval organization.

7. No payment will be made for hospital confinement resulting from pregnancy, childbirth, or miscarriage.

8. No payment will be made for hospital confinement which begins after the employee has attained the seventieth anniversary of his birth.

9. No payment will be made for hospital confinement which begins after the expiration of the period during which indemnity is payable to the employee under the group accident policy obtained by the employer.

CHAPTER 14

MISCELLANEOUS LIABILITY INSURANCE

Liability for Negligence.—The law provides that anyone who causes injury to another or causes damage to the property of another, through his own negligence or the negligence of his agents or employees may be liable for any resulting damages. Furthermore, every person must use a reasonable degree of care and the degree varies with circumstances. The following illustrations indicate persons who may be held liable for negligence:

1. A building contractor who is erecting or repairing a structure may be held liable for injuries to anyone about the building who is entitled to be in the building, as well as to passers-by or persons in adjoining premises.

2. A property owner may be held liable for injuries to others by reason of any defective condition, improper repair, faulty construction, or inadequate maintenance or operation of the building.

3. A manufacturer of food products may be held liable for any foreign substance in the product, causing injury to any person using the product.

4. A manufacturer may employ an independent contractor to do certain work, for example construction work. The question might arise whether the manufacturer is or is not responsible for the negligence of the independent contractor. Furthermore, if a statute or ordinance provides that the manufacturer is liable, he cannot escape liability, even though he hires an independent contractor to do his work. One may delegate certain work to an independent contractor, but he cannot entirely eliminate his liability to others. He may be sued jointly with the contractor or independently, and sometimes judgment is rendered against him.

Types of Liability.—To protect the insured against liability for personal injury, the insurance companies issue various types of miscellaneous public liability policies. Public liability may be direct, contractual, or contingent and protective. Where the insured's own legal liability is involved, the liability may be termed direct or primary coverage. In contractual liability, the liability of others is deliberately assumed as a result of contract. This type is illustrated by the manufacturer who may induce a railroad to build a spur track on his property by agreeing not to hold the latter responsible in case of accidents occurring as a result of the operation of the spur.

Protective liability involves the indirect liability of the insured to the public for the acts of others for which the law may hold him liable. The owners' or contractors' protective liability policy, for example, covers the insured owner or contractor against claims arising from construction operation carried on by independent contractors or subcontractors for the owner or contractor.

Three stages of liability may exist in one construction operation involving a general contractor and subcontractor. In such a case, the primary coverage is obtained by the sub-contractor, while the general contractor purchases contractors' protective insurance and the owner obtains owners' protective insurance. These three policies protect all interests.

Classification of Policies.—To protect the insured against these liabilities for personal injury and property damage, insurance companies issue various types of miscellaneous liability policies having certain uniform provisions.

The following policies may be included in the miscellaneous liability insurance classification:

1. Contractual liability insurance, which covers liability of others deliberately assumed by the insured as a result of contract.
2. Elevator liability insurance, which covers injuries resulting from the existence, maintenance, and operation of elevators, elevator hoistways, and equipment incidental thereto.

3. Manufacturers' and contractors' liability insurance, which protects those insured against claims for damage on account of manufacturing or contracting operations including the existence, maintenance and use of buildings in connection therewith.
4. Owners', landlords', and tenants' liability insurance, which covers injuries resulting from the ownership, care, maintenance, occupation or use of the premises.
5. Owners' or contractors' protective liability insurance, which covers the insured owner or contractor against claims resulting from accidents to the public as a result of construction operations carried on by independent contractors or subcontractors for the owner or contractor.
6. Products liability insurance which covers the insured against accidents due to consumption, handling, or use of products away from the premises.
7. Residence, private estate and farm liability insurance, which is a form of owners', landlords' and tenants' policy designed to protect the owners of these respective properties.
8. Sports liability insurance which protects the insured against accidents arising out of participation in sports.
9. Teams liability insurance, which indemnifies the insured against claims for damage resulting from the existence, maintenance, loading, unloading, and use of draft and saddle animals, bicycles, hand trucks, and push carts.

Professional liability insurance will also be included in this chapter. Liability insurance for automobiles, aircraft and steam boilers, and machinery will be discussed in subsequent chapters.

General Coverage.—The various miscellaneous liability policies protect the insured against claims on account of public liability and property damage.

Public liability claims may arise from accidental bodily injury and consequent death sustained by any persons, except employees engaged in the business of the insured. Persons to whom the insured may be liable under any workmen's compensation law are likewise excluded. Whatever immediate medical

and surgical relief is imperative at the time of the injury, however, is included in the public liability coverage.

Property damage liability may arise from accidental damage to property including the loss of its use. Property owned, leased, rented, occupied or used by or placed in the custody or care of the insured or any of his employees, however, is excluded from coverage. This exclusion, it should be noted, does not apply to elevator property damage liability.

Premium Basis of Classification.—The policies previously listed may be divided for the purpose of analysis into two groups based on the method of quoting premiums:

1. Premiums based upon fluctuating indices of hazards, as exemplified by business operations hazards, number of drivers, contract price for building construction, and receipts for admission to amusements or exhibitions.
2. Premiums based on fixed indices of hazards, such as the number of elevators or the area and frontage of buildings.

This basis of classification will be followed in the analysis of various miscellaneous liability policies.

Policies with Premiums Based on Fluctuating Indices.—Policies of this group are written with an estimated premium. At the end of the policy period, the actual premium is usually determined by an audit of the insured's books. The following policies of this group will be analyzed:

1. Manufacturers' and contractors' liability policy
2. Owners' and contractors' protective policy
3. Teams liability policy
4. Products liability policy

Manufacturers' and Contractors' Liability Policy.—This contract is issued to manufacturers, general and building contractors and similar firms. The insured is covered against his legal liability for injury to persons, and by endorsement for damage to the property of others caused by reason of the conduct of his business.

EXCLUSIONS.—Accidents caused by the following persons or circumstances are excluded:

1. Any person employed by the insured in violation of legal age limits. Persons under 14 years of age are subject to the same exclusion, where there are no legal restrictions on the age of workers.
2. Use, ownership, or maintenance of any vehicle or of any draft or driving animal elsewhere than within the premises owned or rented by the insured or upon which he is performing construction work.
3. Any aircraft.
4. Consumption, handling, or use, away from premises by persons not in the insured's employ of any product manufactured, handled, or distributed by the insured.
5. Injuries occurring at any place after the insured has completed his operations at that point.
6. Existence, use or maintenance of any elevator, elevator well, hoisting, and other incidental equipment in the premises owned, hired, or otherwise controlled by the insured. However, this exclusion will not apply to any platform hoist or elevator used for hoisting material or equipment and operated under the control of the insured at locations where his construction work is in progress.
7. Independent contractors or subcontractors and their agents or employees while engaged in work for the insured other than maintenance and ordinary repair or alteration of the insured premises. It should be noted that structural alterations, additions and demolitions are specifically excluded from coverage as contrasted with minor alterations.
8. Liabilities which the insured assumes by oral or written agreement or contract.
9. Coverage available under any workmen's compensation law, plan, or agreement.

The property damage liability endorsement of the manufacturers' and contractors' liability policy does not cover claims

for property damages which occur under the following circumstances :

1. Explosion, collapse, or rupture of boilers and other receptacles or their parts under pressure.
2. Breaking, disrupting, or tearing asunder of any engine, fly-wheel or turbine.
3. Burning out, breaking, or disrupting of any electrical power unit.
4. Discharge, leakage or overflow of water or steam from automatic sprinkler systems, plumbing systems or tanks, steam or hot water heating pipes and radiators, elevator tanks and cylinders, standpipes for fire hose, industrial and domestic appliances, and refrigerating systems. This exclusion also applies in the event of collapse of tanks forming a part of plumbing or automatic sprinkler systems.
5. Rain or snow admitted to the interior of buildings by defective roof leaders or spouting, or through broken or open doors, windows, and skylights.
6. Damage to wires, conduits, pipes, mains, sewers, and other underground apparatus.
7. Use of contractors' mechanical equipment while excavating or drilling in streets or highways.

RATES.—Rates for manufacturers' and contractors' liability policies are based upon the following factors :

1. Type of business. All business operations are divided into classifications and a rate provided for each classification. Rates are quoted in terms of \$100 of payroll.

2. Territorial location of business operations of insured.

3. Liability limits. The standard limit for bodily injury is \$5,000 for one person and \$10,000 for one accident when several persons are injured. The same limit applies to each project of contractors. The standard limit for property damage liability is \$1,000. The policy is subject to a total limit of \$10,000 for damage to property during the policy period. Limits can be increased by endorsement.

Owners' Protective Policy.—As previously mentioned, protective insurance provides coverage against liability for injury

or damage caused by others for which the insured may be legally liable. Of this type is the owners' protective policy which affords a contingent coverage to owners whose buildings are in the course of construction by contractors or subcontractors.

The independent contractor or subcontractor will be held primarily liable for accidents to the public. The owner may nevertheless desire protection against suits. This protection is provided by the owners' protective policy which is similar to the manufacturers' and contractors' liability policy in extent of coverage. The owners' protective policy also covers claims for injury and losses arising from the existence, location or condition of material and equipment used by or delivered for use by the independent contractor or subcontractor.

The policy covers only the owner for whom a project in its entirety is being or about to be undertaken under contract by one or more independent contractors or subcontractors.

EXCLUSIONS.—The company is not liable for claims alleging injury or death under the following circumstances:

1. Caused or suffered by the insured's employees.
2. Caused by the use of vehicles by the insured or his employees.
3. After final completion of work performed for the insured at the place where the accident occurs.
4. When liability has been assumed by the insured under an oral or written contract or agreement.

Contractors' Protective Policy.—This is a contingent coverage designed to protect contractors from liability claims arising out of the operations of subcontractors. It carries the same provisions and is subject to the same limitations as the owners' protective policy.

PREMIUM CHARGES FOR OWNERS' AND CONTRACTORS' PROTECTIVE POLICY.—Premium charges for the two protective forms are determined in much the same way as in the case of the manufacturers' and contractors' policy. Rates are thus based on each \$100 of the total cost of all work let or sublet in each project.

Total cost includes all labor, materials and equipment furnished, used or delivered for use in execution of the project. It matters not whether these items are furnished by the owner, contractor or subcontractor. Furthermore, all fees, commissions, allowances and bonuses, whether paid or due, are included in cost.

Teams Liability Policy.—The teams liability policy is used for the liability coverage of teams, bicycles, hand trucks, push carts, and draft and saddle horses including the loading and unloading hazard.

EXCLUSIONS.—The company is not liable for claims arising under the following circumstances:

1. Damage is caused by persons employed in violation of statutory age requirements. Where no legal restrictions exist as to age limits, the exclusion applies when the responsible employee is below the age of 16.
2. The insured assumes the liability of others by oral or written agreement.
3. The insured is liable under any workmen's compensation agreement or law.

RATES.—Charges for teams liability policies depend upon the following factors:

1. Type of insured's business.
2. Territory in which teams are employed.
3. Number of teams owned or hired by the insured.
4. Liability limits.

The actual number of teams upon which the premium charge is based is determined by dividing the entire compensation earned during the policy period by drivers by the average annual rate of compensation per driver. In addition, there is added the number of teams driven by persons who do not receive wages. If teams are hired with drivers, one half the amount of the cost of hire of such teams and drivers is used as the remuneration for the drivers.

Products Liability Policy.—This contract is designed to protect the insured from legal liability for claims arising

from consumption, handling or use of products away from his premises. Among those who need this insurance are package food manufacturers, bakeries, tobacco product manufacturers, shoe manufacturers, and various retail stores.

When a products liability policy is written for restaurants, coverage applies both in and outside the insured premises. This protection is available only when concurrent owners', landlords' and tenants' liability insurance, to be described, is carried in the same company.

LIABILITY LIMITS.—Standard limits for bodily injury or death claims are \$5,000 for injury to one person and \$10,000 for injury to several persons in one accident, subject to an aggregate limit of \$25,000 for the entire policy period. For property damage, the limit is \$1,000 per accident, subject to an aggregate limit of \$10,000 for the entire policy period.

When merchandise or products from one prepared or acquired lot cause injury to more than one person, the policy provides that all such injuries from a common cause constitute one accident. This rule applies whether the lot has been sold by the insured as a whole or in parcels.

If, for example, the policy is issued with a limit of \$5,000 for one person, \$10,000 for several persons in one accident, and of \$25,000 for all persons injured at various times during the policy period by reason of the consumption of one lot, the company's liability is limited to \$10,000 for all claims alleging injury from consumption of that lot.

EXCLUSIONS.—The policy does not cover: (1) liability under any workmen's compensation plan, agreement or law, (2) liability of others assumed by the insured under any agreement.

RATES.—Charges for products liability insurance are based on sales units of \$100. Sales comprise the entire amount of money, including taxes, charged for all merchandise and products sold by the insured during the policy period.

For certain types of business, premium rates are based on some other common unit of measure. This unit may be the number of fillings for bottling soft drinks; the number of gal-

lons for bottling distilled products; and the number of tons in the case of coal mines.

Policies with Premium Based on Fixed Hazard Indices.—The policies in the second group are written on a premium based on fixed conditions determinable in advance. In general this group includes the following policies:

1. Owners', landlords', and tenants' liability policy
2. Elevator liability policy
3. Residence, estate, and farm liability policy
4. Sports liability policy

Owners', Landlords', and Tenants' Liability Policy.—This policy covers owners and lessees of premises such as private residences, stores, hotels, office buildings, restaurants, and churches.

The company is liable for bodily injury and property damage claims arising under the following circumstances:

1. Ownership, care, maintenance, occupation or use of the premises.
2. Ordinary repair and alteration of the insured buildings.

Injuries and damages suffered elsewhere are therefore covered when caused by employees of the insured who are required in the discharge of their duties to leave the premises of the insured.

EXCLUSIONS.—Accidents caused by the following persons or circumstances are excluded:

1. Any person employed by the insured in violation of the legal age limit. Persons under the age of 16 are subjected to the same exclusion where there are no legal restrictions on the age of the worker.
2. Use, ownership or maintenance of any vehicle or any draft or driving animal elsewhere than within the premises owned or rented by the insured.
3. Caused by any aircraft.
4. Consumption handling or use outside the premises by persons not in the insured's employ, of any product manufactured, handled or distributed by the insured.

5. Existence, use or maintenance of any elevator, shaft, hoist-way in the premises owned or leased by the insured.
6. Caused by the making of additions to structures in or the demolition of the premises unless provided by endorsement.
7. Liabilities which the insured assumes by oral or written contract.
8. Coverage available under any workmen's compensation laws or agreement.

AUTOMATIC COVERAGE.—Banks and other owners may insure various properties at different locations under one policy. Failure to notify the company of newly acquired buildings may deprive the owners of insurance in these properties. To avoid this contingency, the policy may provide for automatic coverage of such properties for a limited period.

RATES.—Charges for the owners', landlords' and tenants' liability policy are generally based upon the following factors:

1. The territory in which the property is located.
2. The type of property insured.
3. The frontage of the building. "Frontage" means the number of lineal feet of the entire property abutting upon the street or public highway, and includes all alleys having sidewalks on one or both sides and on all alleys when the principal entrance to the premises is from the alley.
4. The area of the building. "Area" means the number of square feet of floor space of the property to be covered, and is determined by the horizontal dimensions of the buildings, outside of their outer walls.
5. Liability limits for bodily injury and property damage.

Other methods of determining premium rates are employed in particular circumstances, as illustrated by the following cases:

1. Premiums for theatres are based on each 100 persons admitted.
2. Premiums for camps are determined by the number of campers.

3. Premiums for bowling alleys are adjusted for the number of alleys.
4. Premiums for toll bridges are quoted per 100 vehicles.

ALTERATION PERMIT.—The owners', landlords' and tenants' liability policy covers ordinary repairs and alterations, but not structural alterations and additions to or demolitions of existing structures. These operations except demolition of existing structures may be separately covered by endorsement and the payment of an additional premium. Similar coverage is also available for the manufacturers' liability policy discussed previously.

LANDLORDS' PROTECTIVE LIABILITY ENDORSEMENT.—When a landlord leases his building, the lessee becomes primarily liable for accidents. The landlord may be subject, however, to contingent liability for structural or latent defects of the building. This hazard is met by the landlords' protective liability endorsement, which protects owners or general lessees who have sub-let the entire building to others over whose acts they have no direct control.

To obtain this endorsement, the owner or general lessee must have leased the entire premises. The person to whom the property is leased must have full charge of the premises, control and operate all elevators, and furnish power. The owner or general lessee, however, may undertake all repairs and maintenance necessary to preserve the premises.

By means of this endorsement, rates are reduced to 50% of the premiums which would otherwise apply to owners and general lessees.

Elevator Liability Policy.—The policy covers against claim arising out of the ownership, maintenance, ordinary alteration and repair or use of the elevator described in the policy and the shafts, hoistways, attachments and appliances of the elevator.

INSPECTION.—The company will inspect the elevator whenever necessary and will make suggestions concerning changes or improvements as may operate to reduce the frequency and severity of injuries. The company, however, is not liable for

failure to make any inspections or suggestions. Any authorized representative of the company may suspend the insurance in so far as it applies to any elevator until any defects or dangerous conditions found are remedied to the satisfaction of the company. The notice of suspension and the reason thereof and the reinstatement of the insurance must be in writing. A pro-rata premium will be allowed for the period of suspension.

EXCLUSIONS.—Acts caused by the following persons or circumstances are excluded :

1. While the elevator is in charge of or is being operated by any person employed by the insured in violation of the legal age limit. Persons under the age of 16 are subjected to the same exclusions where there are no legal restrictions on the age of the worker.
2. Caused by the making of additions to structures, alterations in or the demolition of premises unless provided by endorsement.
3. Liabilities the insured assumes by oral or written contract.
4. Coverage available under any workmen's compensation law or agreement.

RATES.—Premiums charged for elevator liability insurance are based on: (1) location of risk, (2) type of building in which elevators are operated, (3) type of elevator, (4) number insured, (5) liability limits, (6) discounts for safety devices.

To minimize the hazard of elevator accidents, discount is allowed on the premium for bodily injury coverage alone when the following are used: (1) approved hoistway door interlocks; (2) approved car-gate or car-door contacts or interlocks.

ELEVATOR COLLISION INSURANCE.—Elevator collision insurance may be written when elevator property damage liability insurance is obtained concurrently in the same company. This policy indemnifies the insured against direct loss or damage to any elevator or other property owned, leased, occupied or used by the insured or in his care, custody or control caused by collision of the elevator or its contents with another object. Property in care, custody, or control of insured applies only to that not covered by elevator property damage liability insurance.

Losses are not covered under the following circumstances:

(1) caused directly or indirectly by fire, (2) caused directly by the breaking or burning out of any electrical machine outside the car of the elevator, (3) damage to any electrical machine, by breaking, burning out or disruption, (4) loss of use.

The elevator collision policy is subject to a limit of \$1,000 per accident, unless increased by written agreement.

TENANTS' PROTECTIVE ENDORSEMENT.—This coverage is similar to other protective liability coverage and is used in connection with elevator coverage. The coverage protects the tenant of a part of a building who uses an elevator in common with other tenants, and does not furnish power, or undertakes to repair or maintain the elevator. The rate charged is 50% of the manual rate applicable to the elevator when operated by the owner or general lessee of the building.

Residence Estate and Farm Liability Policy.—This policy provides public liability coverage for owners and lessees of private residence, two-family dwellings, estates and farms. It is modeled after owners', landlords', and tenants' liability policy.

The policy also covers: (a) garages and stables on premises of principal residence and occupied in part for dwelling purposes by the insured, his guests or servants and not used for business purposes; (b) garages and stables located away from the premises of the principal residence, not used for dwelling or business purposes; (c) individual or family cemetery plots or burial vaults; (d) the construction of additional buildings, and structural alteration of, additions to or demolition of existing buildings included under the classification, provided that such work is performed on the insured premises and does not change the identity of such premises as respects the occupancy contemplated by the classification. Under this form coverage is therefore provided for alterations and additions without any additional premium, provided there is no change in the identity of the premises as respects the occupancy.

Employee's liability coverage is available for owners and lessees of residence, estate, and farm as domestic and agricultural workers are usually not covered by workmen's compensation acts.

Sports Liability Policy.—The sports liability policy is issued to persons who desire protection against legal liability

arising out of participation in sports. The insured is covered under the following circumstances:

1. During practice or participation in any athletic sport or game except as excluded elsewhere in the policy.
2. While fishing, hunting and target practicing and using firearms in connection with these activities.
3. While using any animal (with or without vehicle attached) for riding or driving purposes, excluding the use of any animal owned by the insured other than polo ponies used in practicing or playing polo, and excluding any commercial use.
4. While using bicycles, canoes, or rowboats, excluding the use of canoes or rowboats owned by the insured when equipped with portable outboard motors, and any commercial use.
5. While using power boats or sail boats, excluding the use of such boats owned, rented, or hired by the insured.

EXCLUSIONS.—The sports liability policy also does not cover claims caused by the ownership, maintenance, or use of an aircraft, automobile, or motorcycle, or animals owned by the insured other than polo ponies used by the insured while engaged in practicing or playing polo.

Personal Liability Insurance.—Liability coverage for the insured's personal acts except as specifically covered by a private residence or sports liability policy, may be provided by separate policy or by endorsement of the private residence liability policy or of the sports liability policy.

EXCLUSIONS.—Unless otherwise provided, the company is not liable for liability claims under the following circumstances:

1. Arising out of the insured's business or professional services.
2. Caused by the insured's failure to perform designated business or professional services.
3. Specifically excluded from the sports and residence and estate coverages.
4. Occasioned by dogs owned by the insured.

EXTENDED COVERAGE.—Personal liability coverage may be extended by written provision and increased premium to include the following liabilities :

1. Dog liability coverage for accidents which occur away from the insured's premises.
2. Liability coverage of adult members of insured's household. This insurance is subject to the same provisions and limitations as the personal liability policy and applies only when the adult members of the household reside permanently with the insured.
3. Liability coverage of minor children of the insured within the same limitation as adult members of the household.

Professional Liability Policies.—Variations of the liability coverage are available to physicians, surgeons, dentists, druggists, hospitals, optometrists and operators of beauty parlors.

Analysis of the following professional liability policies will serve to illustrate this coverage :

1. Physicians', surgeons', and dentists' liability policy
2. Druggists' liability policy
3. Beauty parlor liability policy

Physicians', Surgeons', and Dentists' Liability Policy.—The policy is frequently issued to physicians, surgeons, and dentists, or to groups of physicians, surgeons, and dentists. Reference will be made to a group policy.

COVERAGE.—The policy covers suits against the insured including partner, physician, dentist, anaesthetist, hygienist, technician, nurses, due to :

1. Malpractice, error, negligence, or mistake.
2. Autopsies, inquests, or personal restraints.
3. Dispensing of drugs or medicine.
4. Breach of contract.
5. Arising from any counterclaim in suits brought by an insured for the collection of fees provided such damages are claimed under items 1 to 4.

LIABILITY LIMITS.—The company's total liability for bodily injuries and deaths occurring during the policy period is

subject to a standard limit of \$15,000. With respect to any one person, the standard limit is \$5,000. Expenses incurred in defending suits against the insured are paid by the company regardless of liability limits.

EXCLUSIONS.—Claims arising under the following circumstances are not covered by the group physicians', surgeons', and dentists' liability policy: (1) caused by the insured when under the influence of intoxicants or drugs; or (2) caused by the insured if guilty of a criminal act.

Although there is no liability, the company must assume the cost of defending the suit.

Unlike other liability policies, the company cannot settle claims against any physician. No claim can be settled without the consent of a majority of the claims committee appointed by the group of physicians.

Druggists' Liability Policy.—The druggists' liability policy covers claims arising from the use or application of drugs, medicines, prescriptions, and other drug store merchandise. The company is liable under any of the following circumstances: (1) errors or mistakes made in preparing drugs and medicines and in filling prescriptions in the store described in the applications; (2) errors or mistakes made in selling or delivering drugs, medicines, prescriptions or other drug store merchandise.

LIABILITY LIMITS.—Standard liability limits of \$5,000 per person and \$15,000 for the entire policy period apply as in the case of the physicians', surgeons', and dentists' policy.

EXCLUSIONS.—The company is not liable for errors of employees of the insured unless they are classified in the application and on duty in the specified occupation when making the mistake. The druggists' liability policy is subject also to exclusions similar to the physicians', surgeons', and dentists' policy.

RATES.—Pharmacists usually have several types of employees. These types are classified for rate-making purposes and a separate rate is provided for each group.

Beauty Parlor Liability Policy.—The beauty parlor liability policy covers claims arising from beauty treatments and the use or demonstration of any beauty preparation or appliance by the insured or his employees at the location named in the policy.

EXCLUSIONS.—The company is not liable for claims arising under the following circumstances:

1. When the compensation of the persons causing the accident is not included in the payroll estimate.
2. When employee causing the accident is below the legal age required, or below 14 years of age where there is no law restricting the age of employment.
3. If the insured uses any preparation which he knows is prohibited at the time by any federal, state or municipal law.
4. If the operator of the permanent waving machine has not had at least three months of experience in working the machine. This exclusion does not apply, however, where the operator is working under another who has satisfied the practical experience requirement.
5. When injuries are caused by defect or use of the offices or building in which the insured's operations are conducted.
6. When accidents occur because of chiropody or electrolysis, unless the policy is specifically endorsed and an additional premium paid for this coverage.

LIABILITY LIMITS.—The usual standard liability limit is \$5,000 for one person and \$10,000 as the upper limit. In this respect, the beauty parlor policy differs from the other professional liability policies.

CHAPTER 15

WORKMEN'S COMPENSATION INSURANCE

Causes and Consequences of Accidents.—Industrial development has given rise to the use of complicated machinery, from the use of which various accidents result. An analysis of these accidents indicates that the following important factors cause people at work to be injured: (1) inapt, careless, or improperly trained employees assigned to operate machinery or other equipment; (2) failure to eliminate or protect against hazardous conditions including inadequately guarded equipment; and (3) fatigue of employees.

These accidents result in losses to the employer and to society at large, as well as to the employee. The employee may be injured or lose his life, or he may become dependent upon others for support. At least he may lose normal wages during a period of inability to work. For the employer, the injuries to the workman may require the replacing of the employee which very often means additional costs since the new employee will require training and may not be able to produce as much work as the one injured. If the accident is a severe one, the department in which the injured was working may be expected to slow down or become demoralized, and sometimes ceases work for the rest of the day. This in general, causes additional economic loss to the employer. As to society in general, it is affected by the fact that the injured may become an object of charity.

Employers' Liability Law.—Prior to the development of the industrial system, the injured employee could recover from his employer only if he could prove the existence of the following conditions: (1) that he had not assumed the risk of his employment; (2) that the accident was not caused by a fellow-worker; (3) that the injured employee was not negligent; and (4) that the employer was negligent.

The realization soon came that there were many cases where the employee could not possibly see the dangers of the occupation in which he was to engage and for that reason various legislatures passed a law known as the "Employers' Liability Law," modifying the common law of master and servant. This law placed a number of responsibilities upon the employer in relation to his employees. It required, among other things, that the employer should furnish the employee with proper working tools, a safe working place, and also with competent fellow-employees. The old defense of contributory negligence still remained, however, and resulted, in many instances, in the defeat of the injured employee in an action against the employer. In view of the inability of the injured employee to collect for his injuries, great dissatisfaction arose in this country. Studies were made as to the cause of fatigue. It was discovered that a factor to be considered was the monotony of industrial work which makes the mind lose some of its alertness and as a result cause or contribute to the occurrence of an accident. The employee did not intend the accident to happen, but the complicated industrial mechanism in which he is involved may have been an important cause of its happening.

The chief objection to the Employers' Liability Law, as has been seen, was the frequent failure of the employee to recover thereunder. A few of the other objections were: (1) The injured employee usually engaged a lawyer to litigate his case and if it was won, frequently the proceeds were shared. (2) The injured employee could not obtain the cooperation of his fellow-employees, because they feared to give evidence in his favor which might be objectionable to the employer. (3) The delay in obtaining judgment often brought destitution to the injured employee. (4) When a judgment was recovered, there seems to have been no standard relationship between the loss suffered and the amount recovered. To a great extent, the amount recovered depended upon the opinion of the jury that heard the case.

Growth of Workmen's Compensation Insurance.—Since the defense of negligence frequently defeated the right of the employee to be reimbursed for injuries, employers were offered

policies known as "workmen's collective policies" which were in effect group accident policies. Under these, payment was made whenever an employee was injured during the course of his work regardless of the question of negligence. Finally, laws known as workmen's compensation laws were passed.

Development and Types of Compensation Acts.—Workmen's compensation acts recognize the fact that industry should bear the cost of industrial accidents. They not only abolish the common law defense of the employer, but also provide for prompt adjudication of the claims of injured employees. Originally, the purpose of the act was to pay compensation for injuries; but today many legislatures undertake to enact statutory requirements for the safety of employees.

Compensation acts, in the United States, were based upon statutes of European countries which had previously been industrialized. In this country there was difficulty in introducing such legislation. Objections were raised because the acts abolished the usual defences of the employer and because they provided that cases should be heard without a jury trial. The constitutionality of such acts was questioned. The courts have generally recognized them as constitutional, and declared that the rights of the employee under the compensation act are based upon a contractual relationship between employer and employee. In addition to remunerating the workman for his services, the employer under a compensation act agrees to pay the employee certain benefits in case of injury arising out of and during the course of his work.

As the constitutionality of the act was originally doubted, laws of two types were passed:

1. **COMPULSORY LAWS.**—This type requires the employer to give his employees protection under the workmen's compensation law.

2. **ELECTIVE LAWS.**—Under this type the employer has the right to choose the workmen's compensation law or a modified employers' liability law. The tendency is for the employer to choose the workmen's compensation law, because he avoids jury trials. As for the employee, he has the right in some states to

reject the compensation law, on condition that he so notify his employer in writing, either at the time he is engaged, or at any time before an accident occurs.

Method of Administration of the Law.—There are in general two methods of administering the act :

1. By a commission. This consists of a body of men, usually appointed by the governor of the state, to hear all cases that come under the workmen's compensation law. The members of the commission are not necessarily lawyers.
2. By a court. Under this form of administration, cases that come under the workmen's compensation law are heard by a judge, or a referee appointed by the judge.

Occupations Covered by Law.—As a rule, the law covers employees engaged in hazardous occupations conducted for pecuniary gain. Certain occupations, notably farming and domestic service, are excluded from some of the laws. Farming is usually excluded on the ground that workmen's compensation legislation is designed primarily for industrial employees. Many legislatures specifically include state employees under the act. Even though an occupation may neither be hazardous nor conducted for a profit, the laws of many states permit the employer to bring himself within the jurisdiction of the compensation law by so notifying his employees.

The Employer.—An employer is usually defined as anyone hiring other people to work for him for the purpose of producing profits. At times, there is difficulty in determining whether the relationship is that of employer and employee. A man, for example, may employ a workman to purchase all necessary materials and perform a job without supervision. If the worker is engaged by a number of firms to perform work and is not subject to the authority of any one employer as to his activities, he may be an independent contractor rather than an employee. The definition of employees contained in the statute should be carefully consulted for the exact status of workers, but many borderline cases have had to be submitted to commissions for settlement.

The Jurisdiction of the State.—The law covers not only employees injured in the state, but generally also any employee hired in the state and injured while working in another state. The state which usually has jurisdiction over the employee is the one in which the contract of employment was made.

Injuries Described by the Laws.—All injuries under the compensation acts may be grouped into four types as follows:

1. **TEMPORARY DISABILITIES.**—These result from injury which disables the worker for a temporary period without leaving any permanent injury.

2. **PERMANENT PARTIAL DISABILITIES.**—These result from injuries involving, as a general rule, the loss of some member of the body, such as a finger, hand, foot, or an eye. Instead of paying benefits for an indefinite period during which the insured may be unable to return to work, benefits for the specific number of weeks provided in the law, are awarded. The tendency today is to pass legislation which provides that if the injured is unable to return to work on account of the accident after the number of weeks specified by law, the compensation benefits must be continued for an additional period.

3. **PERMANENT TOTAL DISABILITIES.**—These result from injuries involving the loss of any two members of the body, such as both hands, both feet, both eyes, or a combination of any two of these, or permanent actual incapacity of the injured, such as a head or back injury.

4. **OCCUPATIONAL DISEASES.**—The original purpose of the compensation law was to provide benefits for physical accidents. If an employee contracted an occupational disease, such as lead poisoning, he was usually not given any compensation. This has been changed in some states by specifically defining certain occupational diseases as accidents or covering all occupational diseases.

Waiting Period.—The law usually provides that the injured employee shall not receive benefits until a certain period after he is injured. This period is variable, and in many laws the

waiting period is one week. The purpose of the waiting period is to prevent any malingering on the part of the employee. Under some laws if the employee is disabled for a protracted period of time, one practice is to pay him from the first day of the injury, thus eliminating any waiting period.

The Award.—The injured employee does not receive as compensation the wages that he earned prior to his injury. The practice is to limit the amount of weekly benefits to be paid to the injured workman. This benefit ranges usually from 50% to 66⅔% of the weekly wages subject to a maximum weekly amount. In addition to the provision for a maximum weekly amount, the law also provides for a minimum limitation. If the percentage of weekly wages produces an amount which is less than the minimum amount stated in the law, the employee is entitled to that minimum amount or his weekly wages. In addition to the compensation benefits the injured employee is entitled to medical aid. In many statutes the amount of benefit for medical aid is limited to a definite amount, or is paid for a limited period of time. The tendency, however, is for the legislatures to allow reasonable medical aid for the period that the injured is disabled.

Rehabilitation.—When the workmen's compensation laws were first introduced, the benefits allowed were compensation awards and medical aid. Then it was found that, even after the injured employee ceased to be disabled, he might be unable to follow his former occupation. To meet this situation, a number of states have enacted rehabilitation laws. These laws provide that if the injured can no longer follow his occupation, he must receive training from the state, in order to be prepared to enter an occupation that he can then follow.

Method of Paying Compensation Awards.—While compensation is awarded on a weekly basis, in practice, the method is to pay money in bi-weekly amounts. If payments are to be made over a long period of time, application for payment of the money in a lump sum may be made to the administrative body. Such applications are not granted unless satisfactory evidence is offered to prove that a lump sum payment would be beneficial

to the injured. In case of lump sum payment, the insurance carrier is granted a reduction for interest.

Benefits for Various Types of Injuries.—If a worker has suffered a temporary disability and is unable to return until after the required waiting period, the award is paid for the entire time he is disabled, less the waiting period and subject usually to a maximum limit on the amount of compensation payable. If the injured is able to return to work, and he is partially disabled, the percentage benefit paid is based upon the difference between the amount that he earns and the amount that he would have earned had he been fully cured.

If the injured has suffered a permanent partial injury, the benefit granted is usually for a specific number of weeks stated in the law. For example, under one law the award granted for the loss of a foot is compensation for 205 weeks. The method of making specific payments in many cases is unfair, because there is no accurate measure of the amount of loss that has occurred. Realizing this, some legislation has attempted to measure scientifically the earning power of the injured employee before and after the injury. The difference between the earning power before and after is the basis used in making compensation awards to the injured. If the injured employee has had a previous disability, the employer is responsible only for the benefit that would have been paid had the injured suffered no previous disability. This, then, precludes recovery for more than the actual injury.

If the injured has suffered a permanent total disability, compensation is sometimes paid for life. If he has had a previous injury at another time and suffers a subsequent injury producing a permanent total disability he is, according to the laws of some states, provided for as follows: The insurance carrier pays the cost of the second injury. Thereafter, as long as the injured is alive, the state pays him from the proceeds of a special fund comprised of contributions made by insurance carriers out of the funds for death cases in which there were no dependents.

If the worker died as a result of the accident, the award is generally compensation to dependents for approximately six years. In addition to the compensation benefits, an award is

made for funeral benefits. Usually the dependents must be blood relations. In some states, dependents are interpreted to mean anyone supported by the deceased employee. In a number of states, if there are no dependents, an award is made to the state treasurer to provide funds for the payment of benefits to injured workers who have lost one member of their bodies previous to a second injury, resulting in permanent total disability. Such funds are also used for rehabilitation work.

Procedure in a Compensation Case.—The following procedure is observed in the granting of awards:

The injured employee must notify both his employer and the administrative body promptly. If notice is not given within the period of time required by law, usually in writing, the injured employee may be barred from his compensation award. However, the following will excuse the failure to give notice: (1) the employee became mentally incompetent as a result of the accident; or (2) the employer was not prejudiced by the failure to receive notice.

In addition to the notice of accident the employee must file a claim for compensation after the notice of accident has been received by the administrative body. The case is then placed on the hearing calendar. The hearings are informal.

DEFENSES.—There are generally only two defenses that the employer can offer: (1) the injury was solely the result of intoxication; or (2) the injury resulted from wilful intent, on the part of the injured employee, to injure himself or another.

Some statutes also provide that an employee who did not use the safeguards provided for his protection at the time of the accident cannot recover.

Third Party Action.—If the injury of the employee was caused by a third party not in the same employ, he has the right to sue the third party for damages. If the employee decides to bring an action against the third party, he should reserve his right to recourse or relief under the compensation act, in case the third party is not held liable by filing a notice with the administrative body agreeing to suspend his remedy under the

compensation law, until his action against the third party is adjudicated. If he receives as much or more from the third party than he would under the compensation law, his employer does not have to pay any benefits. However, if he receives less than he is entitled to obtain, the employer must pay the balance of benefits over the amount recovered from the third party. If the employee decides to accept workmen's compensation benefits rather than sue the third party, he must subrogate his rights against the third party to his employer. The employer can then sue the third party.

Universal Standard Workmen's Compensation and Employers' Liability Policy.—The legislatures realized that in some cases an employer might suffer, through accidents to his employees, losses so heavy as to affect his financial stability. They, therefore, provided a system permitting insurance companies to carry the risk of the employer in consideration of a premium. At the present time the insurance companies issue a policy which is practically standard throughout the United States and is known as the standard workmen's compensation and employers' liability policy.

Many of the states have passed laws requiring certain provisions to be stated in the policy. In one state the law provides: (1) that a copy of the policy must be filed with the state; (2) there must be a 10 days' cancellation notice, a copy of which must be sent simultaneously to the state and the insured; (3) if the insurance company accepts a premium from the insured, liability cannot be denied under the workmen's compensation law, although the employer would not have been required to obtain compensation insurance.

Basic Declarations.—The basis upon which the policy is issued is known as the declaration of the employer. In order that the insurance company may properly compute the premium that the insured should pay and decide any other underwriting questions, the following important information must be given: (1) location of premises; (2) classification of the operations performed by the insured; (3) estimated annual payroll in accordance with the classifications applicable.

Policy Provisions.—The policy covers the following losses :

1. Losses resulting from personal injury or death of employees imposed on or accepted by the employer under the workmen's compensation law. All benefit provisions of each workmen's compensation law covered under the policy become part of the policy and the company is obligated to pay benefits stated in the law. The policy does not include, however, any workmen's compensation law or plan not cited in the endorsement attached to the policy.

2. Losses resulting from his legal liability to workers legally employed and injured within the territorial limits of the United States and Canada. As some employees may be able to assert their rights on a tort action in the courts, this policy is therefore also an employer's liability coverage.

Services of Carrier.—The insurance company agrees to serve the employer by inspection of work premises covered by the policy as often as the company deems it necessary. Upon notice of injuries sustained by the employees, the company will conduct investigations, defend suits instituted against the employer, and make settlements as required by law. The carrier will further pay all legal costs, the interest accruing after entry of judgment, and all other expenses incurred for investigation, negotiation, or defense.

Premium.—The premium is based upon the entire remuneration earned during the policy period by all employees engaged in the business operations of the employer described in the specific declarations of the policy. Any operations whether conducted in or outside the premises, are also included.

The compensation of president, vice-president, secretary and treasurer of a corporation, however, is not usually counted in the total remuneration on which the premium is based. If the duties of any of these officers are ordinarily handled by superintendents, foremen or workmen, the compensation of that officer is included in the coverage. By statute, however, the compensation of executive officers may be included regardless of the nature of their work unless the officers elect to be excluded on a special form prescribed by the Industrial Commission.

At the end of the policy period the actual amount of remuneration earned during the period must be exhibited to the company. At this time the earned premium is adjusted in accordance with the actual amount of remuneration at the rates and in the manner specified in the policy. The adjustment is also subject to a stipulated minimum premium below which the earned premium cannot fall.

Obligations of the Company.—The obligations of the company for workmen's compensation benefits are the direct obligations and promises of the company to any injured employee covered by the policy, or in the event of his death, to his dependents. To each such employee the company is made directly and personally liable and the contract may be enforced by the employee or a dependent in his name or on his behalf. Claims may be brought at any time or in any manner permitted by law against the company alone or jointly with the employer.

The obligations and promises of the company are not affected by the failure of the employer to do or refrain from doing any act required by the policy; nor are they affected by any default of the employer after the accident in the payment of premiums or in the giving of any notice required by the policy or otherwise. The obligation and promises of the company are not affected by the death, insolvency, bankruptcy, legal incapacity or inability of the employer; nor by any proceeding against him as a result of which the conduct of the employer's business may be and continues to be in the charge of an executor, administrator, receiver, trustee, assignee, or other person.

Various endorsements may be attached to the compensation policy to supplement or modify the contract as may be required in individual cases. To illustrate a few of the endorsements, reference will be made to several used in New York State:

1. New York Standard.
2. Excluding Executive Officers of Corporation
3. Eliminating Statutory Medical Aid
4. Voluntary Compensation
5. United States Longshoremen's and Harbor Workers' Compensation

New York Standard Endorsement.—The purpose of this endorsement is to modify the various provisions printed in the body of the workmen's compensation policy in order to conform to the New York law and to the regulations of the Compensation Insurance Rating Board. This board determines rates for workmen's compensation insurance carriers operating in New York State.

The New York endorsement contains the following important provisions affecting the coverage of the standard workmen's compensation policy.

1. **OCCUPATIONAL DISEASES.**—Occupational diseases and infections are excluded from the employer's liability coverage of the policy.

2. **CONTRACTORS.**—When the employer is a contractor engaged in a hazardous employment and subcontracts all or any part of his contract to one or more subcontractors, the remuneration of employees of any subcontractor is included in the return of remuneration upon which the premium is computed. The same rule applies to the employees of a contractor with whom the owner of timber other than on farm land contracts to perform work involving hazardous employment.

Remuneration as thus reported is considered the remuneration of the insured employee and is governed by the same terms, conditions, and requirements.

When a contractor or subcontractor has secured compensation for his employees as provided by the workmen's compensation law throughout the period required for the execution of the work, the employers of the contractor and subcontractor are not governed by the above rule. Proof of the security must be submitted by the employer to the company in the form of a certificate signed by the insurance carrier, which undertook the contractor's or subcontractors' risk.

The contractor clause also does not apply when the contractor or subcontractor has qualified as a self-insurer. This qualification must be evidenced by submission to the company of a copy of the written consent of the Industrial Commissioner.

EMPLOYER COVERAGE.—Every executive officer of the employer, if a corporation, is considered an employee, irrespective of the nature of his duties. If, however, executive officers elect not to be brought within the provisions of the law, they must file with the company a copy of their election on a form prescribed by the Industrial Commissioner. Any executive officer whose remuneration is not made subject to the premium charge is wholly excluded from the provisions of the policy.

The entire remuneration of each executive officer coming within the plan must be disclosed, subject to a maximum individual remuneration of \$100 per week, if his actual remuneration is a greater amount. In the event an executive officer serves without compensation or at less than \$30 per week, the premium is based on a minimum individual remuneration of \$30 per week. The remuneration of each executive is assigned without division to the highest rated classification applicable to any duty which engages him for any part of his time.

If the employer is a religious, charitable, or educational institution, and its executives serve without remuneration, they are not included in the above plan unless the employer requests insurance covering the executive officers. In that event premium charges are applied to an agreed remuneration of \$30 per week.

A study of workmen's compensation statistics indicates that risks producing small premiums apparently have a higher loss ratio than those producing large premiums. To correct this condition an extra charge called the loss constant, may be added to risks which produce premiums below a certain amount. Furthermore, the expense charge which is part of the manual rate is on a percentage basis disregarding the amount of premium produced by the insured. In order to correct an indicated disproportion in actual expense cost as between small and large risks, an expense constant may also be added to risks which produce a premium below a certain amount. For example, the New York standard endorsement therefore provides that where the estimated premium, calculated by applying authorized rates to the estimated annual payrolls, is less than \$500, a charge known as the loss and expense constant is added to the premium as shown on the New York rate sheets. If, however, the applica-

tion of the loss and expense constant produces a total premium exceeding \$500, the loss and expense constant is reduced to an amount which will provide a total premium of exactly \$500.

No loss and expense constant is charged on a policy where the earned premium calculated by applying authorized rates to the total annual payrolls for operation in New York equals at least \$500.

The company and the compensation rating board are permitted at all reasonable times during the policy period to inspect the plants, works, machinery and appliances covered by the policy and are permitted during the policy period and any extension thereof and within one year after the final termination of the policy to examine the employer's records which indicate remuneration earned by employees of the employer or other persons covered by the policy or which show or tend to show the premium payable.

RATES.—The policy is issued by the company and accepted by the employer subject to the rate manual and rating plans established by the Superintendent of Insurance. Classifications and rates of premium are subject to correction or modification in accordance with changes in the rate manual and rating plans. Any correction or modification is expressed by an endorsement stating the effective date of the rate change.

Endorsement Excluding Executive Officers of Corporation.—Under the New York State law, executive officers of corporations are regarded as employees and are deemed to be included in the cover of the policy unless they are expressly excluded therefrom. The endorsement amends the policy to provide, that the specifically named executive officers of the employer are wholly excluded from all the provisions of the policy. The employer warrants that each of the named executive officers has personally subscribed his name to the notice of election to be excluded as prescribed by the Industrial Commissioner.

The company makes no premium charge on the remuneration earned by the named officers, and the employer saves the company harmless, indemnifying the company for any loss sus-

tained because of the claims arising from injuries to any of the executive officers named in the endorsement.

Endorsement Eliminating Statutory Medical Aid.—This endorsement provides for a reduced rate for the policy if the employer agrees to comply with all requirements respecting medical, surgical or other attendance or treatment, nurse and hospital service, medicine, crutches or other apparatus, and thereby frees the company from liability for these expenditures. The employer must maintain upon the premises either a dispensary or an emergency hospital during the entire period of the policy and must render the medical or surgical service, attendance or appliances prescribed by the company in conformity with rules of the workmen's compensation rate manual.

In the event of the insolvency or bankruptcy of the employer which necessarily and unavoidably prevents him from complying with the provisions of this endorsement, all expenses incurred by the company become the immediate obligation of that employer and constitute a valid and incontestable claim against his insolvent or bankrupt estate.

Voluntary Compensation Endorsement.—This endorsement is used when the employment covered does not come within the provisions of the workmen's compensation law.

When an employee sustains injury or death in the course of an employment and under such circumstances as would have rendered the employer or company liable if the employment had been included in the workmen's compensation law, the company will voluntarily pay on behalf of the employer the customary medical, surgical and other statutory benefits. This extended coverage, however, is subject to all the limitations, provisions and requirements of the workmen's compensation law.

ASSIGNMENT AND RELEASE.—In consideration of these voluntary payments, the injured employee or any person receiving benefits through him must execute a full release of all claims for damages against the employer in the manner required by the company. In addition, he must execute an assignment to the company of any right of action against any person, company or estate which may be liable for the injury or death. The em-

ployer is obviously excluded from this list by reason of his full release from liability.

In the event that the insured dies as a result of injuries sustained in an occupation not included in the workmen's compensation law and any one claiming benefits accepts the voluntary payment provided by the endorsement with knowledge of the stipulated release or assignment, he is estopped from asserting that the release or assignment is not binding upon him.

If the company recovers from the party at fault an amount in excess of the compensation and the statutory benefits voluntarily paid, the company will pay the excess less necessary expenses to the person executing or affirming the assignment. The company has full discretion to proceed against the party at fault or to settle with him either without or during the pending of litigation.

RIGHTS OF DISSENTERS.—An injured worker or a person claiming under him may refuse to accept the voluntary payments provided by the endorsement. In that event the company can withdraw its voluntary proposal without notice. Any claim, suit or demand made or prosecuted for damages is considered as refusal to accept voluntary compensation. The company then becomes in effect liable under the employer's liability terms of the policy as completely as if the endorsement had never been written.

United States Longshoremen's and Harbor Workers' Compensation Endorsement.—This endorsement applies to workmen who come within the provisions of the United States Longshoremen's and Harbor Workers' Compensation Act. In this endorsement the company agrees to abide by all provisions of this Act and by all lawful rules, regulations, orders and decisions of the United States Employees' Compensation Commission and of the Deputy Commissioner having jurisdiction.

Accident Prevention.—Various agencies are interested in the prevention of accidents, including industrial, public and home accidents. Certain of these organizations, such as the manufacturers of safety guards and devices, are active in this field for the profit involved, nevertheless they perform a vai-

uable service to the community by developing the various forms of highly effective and efficient safeguards which, when properly used, reduce the accident frequency and accident cost. These concerns make detailed and technical studies of the various causes of accidents, and the guards and safety devices which they develop are the result of these investigations. Other agencies are educational. The National Safety Council, for example, issues pamphlets and educational literature for distribution to factories, schools, the general public. They, at times, use motion pictures and safety and lantern slides showing different subjects pertaining to accident prevention.

The American Society of Safety Engineers, the engineering section of the National Safety Council, consists of members in various parts of the country devoted to safety engineering. They study the causes and effects of all forms of industrial and public accidents and occupational diseases, and devise preventative methods based on engineering standards and education. The American Society of Safety Engineers, at the request of state departments, draws up safety codes. The Society holds conferences in various parts of the country for the benefit of its members, and at these meetings the latest developments in accident prevention are discussed by the best engineers in the field.

The American Museum of Safety has permanent exhibits showing types of guards for industry.

The International Association of Industrial Accident Boards and Commissions has as its primary purpose the standardization of reports of industrial accidents in the different states. This standardization is designed to promote a study of the causes and effects of various accidents, and to obtain comparable statistics for the various states. Studies are also made to determine means of reducing accidents, the cost of conducting industrial hospitals, and other factors.

The state governments are actively interested in accident prevention through their departments of labor. They sponsor statutes prohibiting minors from working at dangerous occupations, and provide for the safeguarding of workers. In addition, many states carry on educational campaigns in which

state representatives visit factories and give lectures to the employees, using motion pictures and safety literature.

Some of the large employers of labor in the country have become actively interested in industrial accident prevention, and are conducting effective safety work in their plants and among their employees without outside assistance. In every instance where this safety work has been carried on in a sincere manner, results have been gratifying.

The contribution of the insurance companies to accident prevention has been made through inspections, recommendations for safeguarding equipment, and the use of merit rating plans.

Merit Rating Plans.—It is a fact that two employers, in the same industry with the same payroll and the same premium, may have plants with varying physical conditions. One employer may closely guard the safety of his employees, and the other may give little attention to this matter. Frequently, the attitude of the employer toward safety is reflected in his loss experience.

Three merit rating plans are employed to induce employers to pay attention to the physical condition of their plants and minimize losses:

1. Schedule Rating Plan, which measures the physical condition of the employer's plant.
2. Experience Rating Plan, which adjusts the premium on the basis of the past loss experience of the individual employer.
3. Retrospective Rating Plan, which gives weight to the loss experience in the current policy year of the individual employer.

It must be remembered that the manual rate in compensation insurance represents the average rate in the various industries, described by the respective classifications. Merit rating increases or reduces the manual rate, in accordance with the plant conditions and the loss experience of the employer. The scheme, therefore, offers an incentive to the employers of labor to prevent accidents by physical improvements of their plants and by encouraging the proper morale among the employees.

Schedule Rating.—Schedule rating is used in a few states primarily in connection with manufacturing risks. This plan attempts to measure the physical elements of risk by listing the more important physical hazard-producing qualities of the environment. Charges or credits are then made for those conditions which are below or above standard.

After rates have been adjusted for the physical condition of the plant, full consideration must be given to the personal factor. Several plants with the same physical condition may produce variable losses largely because of the general morale of the respective plants. To promote higher morale, rate reductions are accordingly offered for the maintenance of internal safety organizations to reduce accidents and plant hospitals to check losses.

Theoretically, the schedule rating plan might be applied to any type of risk. In practice, however, the plan is applied only to factories carrying on hazardous operations. The plan is not adapted to construction operation, because there is a constant shifting of the point where construction is being done. There is no possibility of producing tangible results which can be measured, as in the case of operations conducted in a factory at a single point. In practice, risks producing a small amount of premium are excluded, since the variation in premiums would not furnish sufficient incentive to employers. Furthermore, the cost of securing the variation in premiums would not be justified by the total results obtained.

Experience Rating.—The schedule rating plan considers primarily the physical condition of the plant. There is, however, another factor that must be considered in order to make rates properly for an individual risk. Since the manual rate is an average rate for the classification of operations it may not precisely be an index of the risk assumed by the insurance carrier in covering a given employer. Therefore, due recognition is given to qualified employers with risks which produce losses below the normal or to those which produce greater losses. To effect this, the experience rating plan is used, though not for risks producing a small amount of premium. To ascertain the

variation from the manual rate, analysis is usually made of the past experience of the insured, as for example in one state for a period of 48 months. In practice, the experience for the period of 12 months prior to the effective date of the policy is excluded.

EXPERIENCE RATING RULES.—Various problems which have arisen in the operation of experience rating plans have been met by the codification of certain rules. A few of the more important may now be considered as used in some states.

1. *Combination of Risks for Experience Rating.* Separate legal entities constitute separate insureds and the operations of each constitute separate risks. For the purpose of this rule, a copartnership or an unincorporated association as such, is considered a separate legal entity.

2. *Use of Past Experience.* The experience on all operations, whether or not normal to the insured's business, is used in adjusting rates. This rule applies regardless of any change in ownership, control or management, except upon acquisition of the entire assets and good will of an enterprise under the following circumstances:

- a. Purchase or inheritance by a new individual owner not previously identified with the management of the retiring establishment.
- b. Purchase by a newly formed copartnership, the majority interest in which is held by a group of new owners not identified with the ownership or management of the retiring establishment.
- c. Purchase by a newly formed corporation, the majority interest in which is held by a group of new owners, provided the majority of the board of directors elected by the new owners were not individual owners, partners or directors of the retiring establishment.

3. If an establishment sells a part of its assets, but otherwise continues to operate its business, all experience incurred prior to the sale must be used in future ratings of the risk.

4. If two or more establishments are merged or consolidated, either by means of a new corporation or copartnership formed

for the purpose of perfecting the merger or by the purchase of the entire assets and good will of the several units by an existing establishment the experience of all the establishments so merged must be combined for future rating of the consolidated operations.

Retrospective Rating Plan.—The Experience Rating Plan and, to some extent, the Schedule Rating Plan depend upon the past experience of the insured. An employer who believes he will have an excellent current experience may, however, wish to give immediate effect to this experience. The Retrospective Rating Plan was designed for this purpose.

The insured has the option of using the plan for all his operations or of limiting it to the operations in a specific state, subject to acceptance by the insurance company. The insured must express his choice before the inception period of the policy.

If the employer does accept the Retrospective Rating Plan, the rate for the current policy is adjusted after the termination of the policy period. Losses are then valued as of a date not earlier than 18 months nor later than 20 months after the rating date. The premium for the current policy period will be decreased or increased depending upon the premium and losses developed for the period. Two further premium adjustments are made at 12-month intervals thereafter. The third adjustment is usually final.

CHAPTER 16

AUTOMOBILE INSURANCE

Automobile Hazards.—The development of the automobile has introduced a new series of hazards for which insurance has provided protection. The hazards may be divided into two classes, unlimited exposure and limited exposure. When an individual drives an automobile he runs the chance of injuring a number of persons or of damaging the property of others. To determine in advance the amount of the losses that he might cause is impossible. Protection against the unlimited exposure may be provided by automobile bodily injury liability and property damage liability insurance. On the other hand, his own automobile may be damaged by colliding with another object, or the glass in his automobile may be broken. Again, his automobile may be stolen, burned, or lost while being transported, or it may be damaged through riot, earthquake, or in some other way.

The maximum loss for hazards to his own automobile depends on its value. Protection against the limited exposure may be provided by automobile collision insurance, automobile fire and theft insurance, and modification of the automobile fire and theft policy.

Anyone injured through the use of an automobile has an action for damages arising out of the operation of the automobile when someone has been at fault. This fault may be a violation of statutory law or of common law principles relating to negligence. Under the common law anyone using an automobile is negligent if his conduct has fallen below that of a reasonable man in like circumstances. His liability is ascertained by trial by jury or by a judge. If the injured party is guilty of contributory negligence, however, he cannot recover damages, unless the conduct of the automobile operator is wanton, willful or reckless. In addition, although the injured was negligent he

may recover under the theory called "the last clear chance." Under this theory the defendant would recover if the operator of the automobile could have seen and recognized the danger and avoided it, but nevertheless failed to do so. In many states laws have been enacted providing that the owner of the automobile may be liable where the automobile is driven with his consent. An owner of an automobile may protect himself against possible financial loss under various circumstances by purchasing automobile bodily injury and property damage insurance.

Automobile Bodily Injury Liability Policy.—The automobile bodily injury liability policy covers the liability which may be imposed upon the insured by law for bodily injuries or deaths caused by accident and arising out of the ownership, maintenance, or use of the insured automobile for purposes specified in the policy.

Deductible bodily injury liability insurance is also available. Under this form the insured contributes towards the liability for each accident up to the deductible amount. The deductible amount applies to the loss portion of the claim and not to the expense incurred by the company. The plan is available for fleets of five or more automobiles and the minimum amount deductible is \$100 from each claim.

In addition, the company agrees to defend any action against the insured, make all necessary investigations to determine the insured's liability, and to settle any claim. Within the limits set by the policy, the company will pay any judgment rendered against the insured, including court costs.

The word automobile means the motor vehicle trailer or semi-trailer described by the policy. It also includes a trailer other than a "trailer home" while used exclusively for personal pleasure or any family purposes other than business purposes, if the automobile is classified as pleasure and business.

If the policy covers a private automobile, the policy covers for personal pleasure, family and business use. If the policy covers a commercial automobile, the policy covers for business occupation of the named insured, including occasional use for personal pleasure and family and other business purposes.

LIMITS.—The policy provides for a standard limit of \$5,000 for injury to one person in one accident including damages for care and loss of service, and, subject to the same limit for each person, the standard limit for all persons injured in any one accident is \$10,000. Assume that five people were injured and each one recovered a \$3,000 judgment, making a total of \$15,000. Maximum liability of the company would be \$10,000, and insured would have to pay the additional \$5,000. If one person was injured in an accident and recovered a judgment of \$6,000, insurance company would pay \$5,000 and the insured \$1,000. The limits can be increased on payment of an additional premium. The company is liable for interest due on the judgment until it has deposited in court such part of the judgment as does not exceed limit of company's liability stated in policy.

TERRITORY.—The policy applies to accidents which occur within the United States of America, Canada, Newfoundland or while on a vessel between ports within these territories.

ADDITIONAL INTEREST CLAUSE.—The policy will also protect persons using the automobile to whom the insured has granted permission. The additional interest clause does not apply to bodily injury or death sustained by a named insured. Suppose, for example, the insured who gave a friend permission to drive the insured's car, was injured as a result of his friend's negligent driving. If the insured then sued his friend and recovered a judgment, he could not hold the company liable.

Persons and organizations operating automobile repair shops, public garages, sales agencies, service stations, or public parking places, and their agents and employees are not covered by the additional interest clause with respect to any accidents arising out of their occupation. Furthermore, any employee of an insured is not covered with respect to any action brought against the employee because of accident to another employee of the same insured, injured in the course of employment in an accident arising out of maintenance or use of the insured automobile in the business of the insured.

AUTOMATIC INSURANCE FOR NEWLY ACQUIRED AUTOMOBILES.—If the insured acquires another automobile, the insurance applies to the other automobile as of the time of its delivery to him: (a) if it replaces an automobile insured by the

policy and only to the extent the insurance is applicable to the replaced automobile; (b) if it does not replace the automobile described by the policy if the company insures all automobiles owned by the named insured at the time of such delivery, but only to the extent the insurance is applicable to all such previously owned automobiles. The insurance terminates upon the replaced automobile at date of delivery. The insured is required to notify the company within ten days after delivery.

ASSIGNMENT.—No assignment of interest in the policy is binding upon the company until its consent has been endorsed upon the policy. In the event of death, bankruptcy, or insolvency of the named insured during the policy period, the policy will, under stated conditions, cover the liability of persons other than the named insured.

If the insured dies or is adjudged bankrupt or insolvent, within the policy period, the policy if written notice is given within 30 days after the death or adjudication covers the insured's legal representative and any person having proper temporary custody of the automobile until legal representatives are appointed and have qualified, but not for more than 30 days after the insured's death or adjudication.

DUTIES OF INSURED.—The insured is required to give notice of all accidents as soon as practicable. The company bears the expenses of his cooperation, except as to the insured's loss of earnings. The insured is not permitted to incur any expense other than for immediate surgical relief. He can assume no liability or settle any claim except at his own expense. Likewise, he must agree not to interfere in any legal proceeding or negotiation for settlement.

EXCLUSIONS.—The policy provides that the insurance company will not be liable for the following:

1. Any obligations assumed by or imposed upon the insured by any workmens' compensation law.
2. Any liability assumed by the insured under any contract or agreement.
3. Operation by a person less than 14 years of age or in violation of any state, federal, or provincial statute as to the age or occupation of the operator.

4. Use of automobile in any prearranged race or competitive speed test.
5. Accidents occurring after transfer during the policy period of the owner's interest, without the company's consent.
6. Towing a trailer, unless the trailer is similarly insured by the same company, or while any insured trailer is used with an automobile not covered by like insurance in the same company.
7. Use of automobile in the business of demonstrating or testing or as a public or livery conveyance.
8. Used to carry passengers for a charge, unless so covered.
9. While such person is in the automobile declared use of which is commercial if more than 8 persons are then in the automobile and it is being used for purposes other than the business of the named insured.
10. Accidents to employees while engaged in the business of the insured (except domestic employment) or in the operation, maintenance, or repair of the automobile.

FINANCIAL RESPONSIBILITY.—The insurance provided by the policy must conform to the provisions of the motor vehicle financial responsibility law of any state or province which shall be applicable with respect to any such liability arising from the use of the automobile, to the extent of the coverage and limits of liability required by such law, but in no event in excess of the limits of liability stated in the policy. The insured must reimburse the company for any payment made by the company on account of any accident, claim or suit, involving a breach of the terms of the policy and for any payment the company would not have been obligated to make under the provisions of the policy except for this special agreement. Further reference to this subject will be made in this chapter.

Automobile Property Damage Liability Insurance.—Property damage insurance is usually written with the bodily injury policy and protects against liability for injury or destruction of the property of others, including loss of use. The damage must result from an accident arising out of the ownership, maintenance, or use of the automobiles covered by the policy. In addition to the exclusions found in the bodily injury policy, the property damage policy does not cover damage

to property owned, rented, leased, hired, in charge of or transported by the insured. In connection with automobiles used for commercial purposes, the policy includes liability for damage to property caused by loading and unloading of goods.

The policy is written with a limit of \$5,000 for any one accident. For example, if a judgment is rendered against the insured for \$6,000 on account of damaging property of another, he must personally pay \$1,000. Higher limits can be obtained on payment of an additional premium.

DEDUCTIBLE PROPERTY DAMAGE POLICY.—Automobile property damage insurance is also available with provision for deductible amounts of \$25, \$50, or \$100 per accident. The deductible amount applies to the loss portion of the claim and not the expense incurred by the company. This form is not available, however, for private passenger automobiles unless they are part of a fleet of five or more automobiles or covered under a garage payroll policy. Fleet and garage coverage will be discussed later in this chapter.

Automobile Collision Insurance.—Protection against the damage to the owner's automobile resulting from the impact of the owner's car with another object, whether the object is moving or stationary, is provided by collision insurance. This form of insurance is purchased by the owner of the automobile, and the insurance company agrees to repair the car or to pay the cost of the repairs or replacement subject to any policy limitation made necessary as a result of a collision. There have been many legal decisions attempting to define the meaning of the word "collision." As a protection to the policyholder, the policy provides that losses due to the upsetting of the car are covered under a collision policy. Some of the policy provisions of automobile collision coverage are like those of the automobile bodily injury policy. The important exclusions stated in the collision policy provide there is no coverage under the collision policy if damage is caused: (1) directly or indirectly by fire; (2) if damage consists of injury to any tire unless caused by an accidental collision or upset of the automobile which also results in any other damage to the automobile.

COLLISION DEDUCTIBLE CLAUSE.—The insurance companies have found automobile collision insurance a difficult line of insurance to handle at times, especially if all losses, however trivial, must be paid.

The direct relationship existing between the insurance carrier and insured may produce a delicate situation wherein the interest of the insured is opposed to the interest of the insurance company. This need not exist where a third party is trying to hold the insured responsible for claims which the insurance company must ultimately pay. Furthermore, it is expensive to investigate small claims.

The insurance companies may prefer to issue an automobile collision policy with a clause known as the "deductible clause." When this clause is attached to a policy, the insurance company is not required to pay the full cost of any damage due to a collision. Suppose that, for example, the insurance company has issued a policy with a \$100 deductible clause and a collision occurs requiring repairs for \$150. The liability of the insurance company is \$50. The insurance company is not liable unless the amount is in excess of \$100, and the liability is limited to the amount above \$100. The amount of \$100 is deducted from the amount of damage caused in each and every accident.

CONVERTIBLE COLLISION.—A special form of full collision coverage is called convertible collision. This form requires the insured to pay a portion of the regular premium at the inception of the policy. If the company pays no losses during the year, the insured is not liable for the remaining portion of the premium. Should he have a loss the insured must pay the balance of the premium due if he desires to collect. Thus, suppose the full collision premium is \$100, and the insured paid \$63 initially. If he subsequently suffered a loss of \$75, the insured must pay the balance of the premium and the company is liable for the loss. He is then insured for the balance of the year with full collision coverage.

Automobile Fire Insurance.—Protection against loss of or damage to an automobile through fire is provided by automobile fire insurance. In addition to the fire coverage, the policy also

protects against loss by lightning, and by the sinking, stranding, collision, burning or derailment of any conveyance in which the automobile is carried on land or water, including general average and salvage charges for which the insured is legally liable. The fire insurance policy may also be endorsed to cover the following perils:

1. Tornado
2. Cyclone
3. Windstorm
4. Hail
5. Earthquake
6. Explosion
7. Water damage
8. Riot, insurrection, and civil commotion
9. Falling aircraft

There are two forms used to insure automobiles. These are: (1) the actual value policy, (2) the stated amount policy.

1. **ACTUAL VALUE POLICY.**—The actual value form is written without mentioning any specific amount as the value of the automobile. In case of loss, recovery is based upon the actual value of the automobile at the time of loss with proper deductions for depreciation.

2. **STATED AMOUNT POLICY.**—This form is written with a definite amount stated as the amount of insurance. However, in the event of loss the recovery is based upon the actual cash value at the time of loss with the limitation that the recovery cannot exceed the stated amount of the policy.

In order to illustrate the use of these forms assume an automobile was insured on (1) an actual value form, or (2) a stated amount policy for \$600. At the time of loss the replacement value of the automobile was \$800. Under the actual value form the insured would receive \$800, but under the stated amount he would receive \$600, as that is the limit of the policy.

Many of the general provisions of the automobile fire insurance policy are similar to those of the automobile bodily injury policy and the standard fire insurance policy. Special ex-

clusions of the automobile fire insurance policy provide that there is no liability for loss: (1) due to the burning of robes, wearing apparel and personal effects or extra bodies; (2) caused directly or indirectly by invasion, insurrection, riot, civil war or commotion, military, naval or usurped power or by order of any civil authority.

Automobile Theft Insurance.—Protection against the theft, robbery and pilferage of an automobile is provided by automobile theft insurance.

In the event that a private passenger automobile is stolen, the company will, upon presentation of the original rental receipts, pay any expense (not exceeding five dollars for any one day) actually incurred by the insured for the rental or hire of any automobile. The time covered is the period commencing seventy-two hours after the theft of the automobile was reported to the police authorities and continuing (though not beyond sixty days from the date of the theft) until the whereabouts of the insured automobile, regardless of its then condition, becomes known to the insured, the company or the police authorities. If, however, settlement is made sooner with the insured for the theft of the automobile, the company's liability ceases simultaneously with the making of the settlement. The company is not liable for an amount in excess of the actual cash value of the automobile at the time of theft.

This form of coverage is usually not sold unless written in connection with the automobile fire insurance policy for a like amount.

There are two forms: (1) broad form, and (2) limited form. These will now be discussed.

BROAD FORM.—The broad form covers theft, robbery and pilferage, but excludes those losses which are caused by the following:

1. Persons in the insured's household.
2. Persons in the insured's service or employment, whether or not during the ordinary hours of employment.

3. Persons, firms, or corporations to whom the insured voluntarily parts with title or possession whether or not induced to do so by false pretense or fraudulent schemes.
4. Wrongful conversion, embezzlement, secretion by a mortgagor, vendee, lessee or other person in lawful possession of the insured property under a mortgage, conditional bill of sale, lease or other agreement, whether written or verbal.
5. Tools or repair equipment. This exclusion does not apply, however, in event of theft of the entire automobile.

RESTRICTED FORM.—The restricted form is similar to the broad form, except as to adjustment of losses when the entire automobile is not stolen. For any automobile listed F.O.B. factory at \$999 and under, \$25 is deducted from the amount of any partial loss. Where the automobile is listed at a higher figure, \$50 is deducted from the amount of loss.

Endorsements under Automobile Fire and Theft Insurance.—By means of the following endorsements, coverage may be extended under the automobile fire and theft insurance policy.

1. Towing charges
2. Riot and civil commotion
3. Flood and rising water
4. Special combined additional coverage
5. Plate glass
6. Tornado, cyclone, windstorm, hail, earthquake, explosion and water damage
7. Personal effects

TOWING CHARGES.—Two forms of coverage are available for payment of towing charges: (1) towing and road service expense; (2) towing and emergency service expense.

Under the towing and road service endorsement, the company agrees to reimburse the insured for towing and road service expenses necessitated by the disablement of his automobile while on the road outside the limits of his premises. The com-

pany's liability is limited to \$10 in any one case. Receipted bills must be submitted to substantiate each claim.

The towing and emergency service expense endorsement provides for reimbursement of the insured for towing and emergency service expenses necessitated by the disablement of automobile described in the policy. As in the case of the towing and road service expense form, \$10 is the limit of liability in any one case. Furthermore, both forms exclude the cost of parts or replacements, gasoline, oil, batteries, or tires.

RIOT AND CIVIL COMMOTION.—This endorsement extends coverage to losses resulting from insurrection, civil commotion and riots, including those attending a strike. The company assumes no liability, however, for losses caused by military, naval or aerial forces of foreign enemies. Losses resulting from confiscation or authorized destruction by duly constituted governmental or civil authorities are likewise excluded. Furthermore, the endorsement does not cover losses sustained while the automobile is used in military or police service.

FLOOD AND RISING WATER.—This endorsement covers damage caused by the rising of navigable waters; the overflow or breaking of boundaries of ponds, lakes or streams; or the accidental discharge or leakage of water from pipes, conveyors or tanks. There is no liability for losses caused by rain, snow, sleet, normal or abnormal tides, and overflow of seawalls.

SPECIAL COMBINED ADDITIONAL COVERAGE.—By this one endorsement, the coverage afforded by the automobile fire and theft insurance policy is extended to include the following hazards:

1. Tornado, windstorm, cyclone, earthquake and water damage.
2. Riot and civil commotion, as described in the separate endorsement covering these hazards.
3. Flood and rising water, as described in the separate endorsement covering these hazards.
4. Damage caused by falling aircraft within specified limits.

Falling aircraft coverage applies when the loss results from the fall or forced landing of an airplane, seaplane, or other

flying machine, or from the fall of any part of the equipment of an aircraft, even though the entire machine does not fall. No coverage is provided, however, when the loss is sustained while the automobile is within the confines or parked within a specified distance from any regular landing field, testing field, beach or airport landing field.

PLATE GLASS.—This form covers the accidental breakage of any glass permanently attached to or forming a part of the structure of the automobile. No coverage is provided, however, for glass in outside lighting apparatus and outside mirrors.

The company is not liable under the plate glass endorsement for any part of the loss or damage when covered by other insurance unless the insurance provides for the deduction of a specified amount from each loss. In that event, the company is liable for no more than the amount deductible in the other insurance.

TORNADO, CYCLONE, WINDSTORM, HAIL, EARTHQUAKE, EXPLOSION AND WATER DAMAGE COVERAGE.—This endorsement covers tornado, cyclone, windstorm, hail, earthquake, explosion, accidental and external discharge or leakage of water. Damage caused by rain, sleet, snow, flood, rupture of tires and explosion within the combustion chamber of an internal combustion engine are excluded.

PERSONAL EFFECTS.—Personal effects are insured by this endorsement against the perils of fire, lightning, and transportation. Robes, wearing apparel, and personal effects must be the property of the insured or of a member of his household to come under this coverage.

The personal effects endorsement does not cover the property of boarders, guests, and employees, even though damaged while in the insured automobile. Other exclusions are salesmen's samples, merchandise for sale or exhibition, theatrical wardrobes, accounts, bills, currency, deeds, money, notes, securities, and other evidences of debt. Finally, no coverage applies for any property specifically or otherwise insured.

Comprehensive Policy.—The various coverages obtainable by endorsement as well as other coverages may be obtained in

the comprehensive material damage policy. This is available in five forms, which are written with the stated amount or actual value form:

1. Full coverage applying to all losses.
2. Full coverage on all losses with convertible collision.
3. Full coverage on all losses, with a deductible applying to collision.
4. Full coverage on all losses excluding collision.
5. Deductible applying to all losses.

Some of the hazards covered by the policy are: fire, theft or attempted theft (broad form), tornado and windstorm, breakage of glass, explosion, earthquake, flood, water damage, riot and civil commotion, malicious damage and vandalism, transportation peril, acid damage, hail, falling aircraft.

EXCLUSIONS.—The comprehensive form is not available for commercial cars. While it relieves the policyholder of the inconvenience of obtaining separate policies and endorsements for broad coverage, the comprehensive form is nevertheless subject to certain exclusions, such as the following:

1. Loss of use.
2. Depreciation.
3. Robes, wearing apparel and other personal effects.
4. Wear and tear, mechanical or electrical breakdown, failures or breakages, freezing, damage to tires unless a result of a loss covered by the comprehensive policy.
5. Theft, robbery or pilferage of tools or repair equipment except when the entire automobile is stolen.
6. Wrongful conversion, embezzlement, or secretion by a mortgagor, vendee, lessee or other person in lawful possession of insured property under a mortgage, conditional sale, lease or other contract or agreement whether written or verbal.
7. War, invasion, military or naval usurped power, or confiscation or authorized destruction by duly constituted authorities.

Garage Keeper's Legal Liability.—Automobile owners may suffer loss while their automobiles are in a public garage. A

garage owner may protect his customers against this hazard by purchasing a garage keeper's legal liability policy.

This policy protects the insured against liability for losses resulting from the perils of theft, fire, and explosion, except the explosion of tires. The company will indemnify the insured for damage to property of others in the custody of the insured for storage, repairs or safekeeping: (1) when in the premises specified by the policy; (2) while temporarily removed from the named location for the purpose of testing in connection with repairs made by the insured; (3) while being called for or delivered under the terms of the contract between the insured and the owner.

The policy also covers legal expenses incurred by the insured with the company in connection with coverage granted by the policy. A maximum limit of liability is designated, however, for each location covered depending upon the stipulated maximum number of automobiles stored.

EXCLUSIONS.—The garage keeper's liability policy does not cover the following perils and losses:

1. Theft, except when an entire automobile is stolen.
2. Loss for damage to robes, personal effects, and merchandise whether or not the automobile in which they are contained is damaged or stolen.
3. Loss on any automobile owned by the insured, his employees, or members of his family. This exclusion applies to members of partnerships and officers of corporations and their respective families.
4. Liabilities of the insured covered by other insurance, whether valid or invalid.
5. Liabilities assumed by the insured under oral or written contract or agreement.

LIMITATION OF LIABILITY.—The premium is fixed on the understanding that the number of automobiles in the custody of the insured for storage, repairs or safekeeping in each of the named premises does not exceed the number specified in the policy. If the automobiles of others are in excess of the limit set for a location at the time of loss, the company is not liable

for a greater proportion of the amount for which it otherwise would have been liable than the number of cars specified in the policy bears to the actual number at the location at the time of loss.

DUTIES OF INSURED.—The insured must maintain a permanent record of every automobile placed in his custody for storage, repairs, or safekeeping. The company has the right at all reasonable time to inspect the books and records of the insured.

Upon request of the company, the insured must aid in effecting settlement. He must strive to secure information and the attendance of witnesses.

Without previous written consent of the company, the insured cannot voluntarily assume any liability or interfere in any negotiation or legal proceeding for settlement. If he incurs any expense or settles any claim without permission of the company, he does so at his own expense.

PREMIUM CHARGES.—**AUTOMOBILE BODILY INJURY AND PROPERTY DAMAGE PREMIUMS.**—Similar methods are used to determine the premium charge for these two forms of coverage. All motor vehicles are divided into four general classes for the purpose of rate making as follows:

1. Private passenger automobile
2. Commercial automobile
3. Public automobile
4. Automobile dealers, repair shops, storage garages, and service stations

Definitions of these classifications may be helpful. A private passenger automobile is a motor vehicle of the private passenger type, unaltered, and used for pleasure or business purposes. This classification also includes motor vehicles altered by the attachment of a small box and also motor vehicles with pickup body or delivery sedan used to transport tools or materials or to carry samples but not used for wholesale or retail delivery.

A commercial automobile is a motor vehicle of the truck type used for the transportation of goods and other business

purposes. This classification includes motor vehicles of the private passenger type which have been altered and also motor vehicles of the pickup body or delivery sedan type used for wholesale or retail delivery.

The public automobile classification includes any automobile used to carry passengers for compensation. In this group fall public and private livery automobiles, taxicabs, hotel omnibuses, jitney busses, school busses, and the like. The final classification covers those enterprises engaged in selling, storing, and servicing automobiles. The automobile dealer is a risk principally engaged in the selling of automobiles. The automobile repair shop is the risk whose principal business it is to repair automobiles and their motors and chassis. The automobile storage garage is defined as a risk principally engaged in storing, parking, washing, and cleaning automobiles.

The functions of the automobile service station, as defined in the fourth classification are broad. The risk may be principally engaged in the business of operating a public gasoline or oil supply station or operating a public service station and its major operations may consist in washing, cleaning, or greasing operations or in the selling or servicing of incidental automobile parts and accessories. The fourth classification also includes body, fender, radiator repair, and paint shops.

Private Passenger Automobile Premiums.—

1. Territory. The hazard varies throughout the United States, as to density of population, automobile traffic and legal conditions.

2. Classes of automobiles. Cars are divided into three classes, W, X, Y—W for least hazardous, Y for most hazardous.

Private passenger automobiles, owned by individuals and not by corporations, are again divided into four sections:

Class A includes private passenger automobiles, the use of which is not required by the duties of the named insured or of any other person customarily operating the automobile at his occupation, business or profession, except in going to and from his principal place of occupation, business or profession.

Class A-1—any private passenger automobile which qualifies for Class A, provided an application is signed by the named insured indicating that (1) the automobile during the previous year was not operated over 7,500 miles and the estimated mileage for the 12 months of the policy period is not over 7,500 miles, and (2) there are not more

than two operators of such automobile in the named insured's household, none of whom is under 25 years of age.

Any employee of the named insured residing in his household who operates the automobile or any chauffeur employed to operate the automobile is considered as an operator. If the insured has more than one private passenger automobile, the foregoing requirement regarding the number of operators applies on the basis of the average number of operators for each private passenger automobile to be insured.

Class B—all private passenger automobiles not eligible for Classes A or A-1, and not included in Class C.

Class C—every private passenger automobile owned by an insured required to file evidence of financial responsibility.

3. Increase in limits of coverage. Bodily injury rates are based upon a limit of \$5,000 for one person and \$10,000 for more than one person in one accident. Property damage rates are based upon a limit of \$5,000 per accident. These limits may be increased by an additional premium. See Table 17.

4. Motor power. Separate rates are made for those automobiles driven by electricity, and those by gasoline.

TABLE 17. PREMIUM CHARGES FOR INCREASED LIMITS

BODILY INJURY LIABILITY

Upper Limits (Liability for more than one person in one accident)	Lower Limits (Liability for one person in one accident)				
	\$5,000	\$10,000	\$20,000	\$25,000	\$50,000
	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent
Dollars					
\$10,000	100	110			
20,000	106	115	120		
25,000	107	116	121	122	
30,000	108	117	122	123	
40,000	110	119	124	125	
50,000	112	121	126	127	130
100,000	114	123	128	129	132

PROPERTY DAMAGE LIABILITY

Limit	Per Cent	Limit	Per Cent
\$ 5,000	100	\$ 50,000	125
10,000	110	100,000	130
15,000	115		
20,000	118		
25,000	120		

SAFE DRIVER REWARD PLAN.—The owner of private passenger automobiles is granted rate reduction when his record is clear of accidents resulting in a claim covered by the policy.

Thirty days after the normal expiration of the policy, the insured's experience is reviewed. He is ineligible for the reward if a loss has been paid under the policy. The insured is also disqualified by the existence, at the time of review, of a reserve for loss or a pending claim for either bodily injury or property damage. If the insured is required as a result of any occurrence to file a certificate of financial responsibility, the incident has the same disqualifying effect.

The insured remains eligible for the reward, however, in the event that claim expenses or medical first aid expenses alone have arisen under the contract. Similarly, the filing of evidence of financial responsibility solely on account of the age of the owner or because of a financial encumbrance on the automobile does not disqualify the policyholder.

Under certain circumstances, the safe driver reward plan is not applicable to private passenger automobiles. Notable among these exclusions are the following :

1. When the automobile is part of a fleet eligible for experience rating or some other plan of rating. Experience rating will be mentioned in this chapter.
2. When the automobile is insured under the automobile fleet plan or any underwriting plan except the specified car basis. Automobile fleet plan will be discussed subsequently.
3. When evidence of financial responsibility must be furnished under circumstances requiring an extra premium charge. The exclusion applies if evidence of financial responsibility is furnished under the same circumstances with the named insured's consent for any other insured under the policy.

Commercial Automobile Premiums.—The premium charge for commercial automobiles depends upon the following factors :

1. Territory. The territorial division is the same as the territorial division used in the determination of rates for private passenger automobiles.

2. Commercial automobiles classification. All cars are divided into classes, determined with respect to the business of the insured.

3. Load capacity. Each of the classes is subdivided into three groups as follows: (a) light—any commercial automobile with a load capacity of $1\frac{1}{2}$ tons or less; (b) medium—any commercial automobile with a load capacity over $1\frac{1}{2}$ tons and not over $3\frac{1}{2}$ tons; (c) heavy—any commercial automobile with a load capacity over $3\frac{1}{2}$ tons.

4. Motor power. If an automobile is driven by electricity, the rate is lower than for those driven by gasoline or steam.

5. Increase in limits. This is on the same basis as that of private automobiles.

LOCAL AND LONG-HAUL TRUCKS.—Local and long-haul truckmen have presented special rating problems. It has been necessary to define the truckmen classification and to distinguish between local and long-haul truckmen.

A truckman is a person, firm, or corporation engaged in hauling or transporting commodities for another. A distinction is made between local and long-haul truckmen.

LOCAL TRUCKMEN'S RATES.—A local truckman is one whose regular and frequent operations are conducted within a 50-mile radius of the place of principal garaging. He must not make regular or frequent trips beyond the 50-mile radius. The truckman must not advertise or otherwise solicit for the hauling of goods beyond the 50-mile radius. The rates are determined by the rates of the highest rated territory within this 50-mile radius.

If a local truckman operates over a route, no portion of which includes the highest rated territory within a 50-mile radius of the place of principal garaging of the commercial automobiles he may be insured at the rates for the highest rated territory in which the automobiles are used or garaged. The policy, however, must declare the territorial operations of the truckman. When a local truckman hauls exclusively for one concern, his commercial automobiles will be subject to the rate applicable to that concern, provided the policy specifies that his operations will be so limited.

LONG-HAUL TRUCKMEN'S RATES.—Rates for long-haul truckmen are adjusted for the following operating distances: (1) over 50 miles but not in excess of 150 miles, (2) over 150 miles but not exceeding 300 miles, and (3) over 300 miles.

Public Automobile Classification.—The types of automobiles included in this classification are defined as follows:

1. Private livery automobile is a motor vehicle of the private passenger type with a seating capacity of not more than seven passengers. It must be rented from a garage and attended by a chauffeur employed by the insured.

This classification excludes automobiles operated for hire from a stand, hotel, station, dock, highway, or other public place. Cars operated at fares determined by zone or taximeter or on a schedule, such as a bus or jitney, are also excluded.

2. Public livery automobile is a private passenger automobile with a seating capacity not exceeding seven passengers. It is subject to call from a garage, stand, station or other public place and rented with a chauffeur of the insured in attendance by the hour, day, trip, or mile. The automobile must be operated for general passenger use only.

The public livery classification excludes vehicles equipped with a taximeter and operated on a schedule as a bus or jitney.

3. Taxicab is an automobile of the private passenger type with a seating capacity of no more than seven passengers. It is equipped with a taximeter, but not operated on a schedule as a bus or jitney.

4. Bus designates an automobile of any type used to carry passengers over a designated route. This classification includes automobiles of the bus or commercial type used for sightseeing and other special passenger purpose. It applies to gasoline electric busses and busses operated over tracks or propelled by electricity from overhead wires.

Public Automobile Premiums.—Premium charges for public automobiles depend upon the following factors:

1. Territorial classification. The regular territorial classification for private and commercial automobiles is used.

2. Passenger hazard. The bodily injury rate for a public automobile includes coverage for injury to passengers carried in the insured's automobile. If coverage for the passenger hazard is excluded by endorsement, the bodily injury rate for a public automobile is reduced.

3. Type of automobile as discussed above.

4. Increase in limits.

Garage, Automobile Dealer and Service Station Liability.

—Special problems are encountered in the bodily injury and property damage insurance written for automobile dealers, repair shops, storage garages, open-air parking stations, and service stations. Usually the insured have more cars than drivers. Furthermore, wide variations exist as to the hazards in and about the place of business and during operation outside of the insured's premises. To meet differing conditions and needs, bodily injury and property damage insurance is provided in several forms: (1) specified car basis, (2) named driver basis, (3) garage payroll basis.

SPECIFIED CAR FORM.—The specified car policy covers the named insured for the automobile specifically described by the policy.

NAMED DRIVER FORM.—This form covers the named insured while the driver named in the policy is driving or riding in the automobile.

GARAGE PAYROLL BASIS.—This form may be purchased by an automobile dealer, repair shop, storage garage, or service station. The premium depends upon the payroll. Coverage is provided by the garage liability policy.

Garage Liability Policy

OPERATIONS.—The coverage of the policy is available for (1) automobile dealer or repair shop, (2) automobile storage, garage or service station, and also if there are private livery and commercial livery operations.

If automobile dealer or repair shop operations are included, the policy covers: (a) the ownership, maintenance, occupation

or use of the premises, including the public ways immediately adjoining, for the purpose of an automobile dealer or repair shop, and all operations either on the premises or elsewhere which are necessary and incidental thereto, including repairs of automobiles or their parts, and ordinary repairs of buildings on the premises and the mechanical equipment thereof; (b) the ownership, maintenance or use of any automobile for any purpose in connection with the above defined operations, and also for pleasure use.

If automobile storage garage or service station operations are included, the policy covers: (a) the ownership, maintenance, occupation or use of the premises designated, including the public ways immediately adjoining for the purpose of an automobile storage garage or service station, and all operations either on the premises or elsewhere which are necessary and incidental thereto, including ordinary repairs of buildings on the premises and the mechanical equipment thereof; (b) the use of any automobile for any purpose in connection with the above operations.

If private livery operations are included, the policy covers the ownership, maintenance or use of any private passenger type automobile, which is subject to call only at the premises designated and rented to others by the insured with a chauffeur employed by the insured in attendance for the purpose of carrying passengers.

If commercial livery operations are included, the policy covers the ownership, maintenance or use of any automobile of the commercial type rented to others by the insured for the transportation or delivery of goods, merchandise or other property.

INSURED.—The term insured includes not only the named insured but also any partner if the named insured is a partnership, or any executive officer if the named insured is a corporation provided such partner or executive officer is active in the operations. However, the policy does not apply (a) to any partnership or named insured with respect to the bodily injury or the death of any partner, (b) to any executive officer or named insured with respect to any action brought against such officer because of bodily injury to or death of another employee

of the named insured injured in the course of employment, (c) to any executive officer with respect to any automobile owned by the officer or by any other executive officer or named insured or by a member of the family of any such person.

PREMIUM COMPUTATION.—The premiums for the automobile dealer or repair shop operations and automobile storage, garage or service station operations are based (a) on entire remuneration earned during the policy period by all employees of the insured engaged in the operations, and (b) on remuneration earned during the policy period by the insured, by the proprietor or proprietors if the named insured is an individual or partnership, or by an executive officer if the named insured is a corporation, and by salesmen and general managers on the basis of a fixed amount of \$2,000 per annum for each proprietor or executive officer active in the operations, and for each salesman and general manager. If private livery and commercial livery operations are included, the premium is based upon the total gross earnings from such livery operations, whether or not such earnings are collected.

EXCLUSIONS.—The policy does not apply (a) if automobile dealer or repair shop operations or automobile storage, garage or service station operations are covered to any automobile while used for carrying persons or property of others for a charge or while rented under contract or lease; (b) if automobile dealer or repair shop operations are covered to any automobile owned or hired by the insured and used as a haul-away for the conveyance of automobiles, or used for the wholesale or retail delivery of fuel oil or the wholesale delivery of gasoline; or to the ownership, maintenance or use for pleasure purposes of any automobile not owned by or in charge of the named insured for use principally in such operations; (c) if automobile storage garage or service station operations are included (1) to any automobile owned, hired or registered by the named insured or by a partner if the named insured is a partnership, (2) to the possession, consumption or use, elsewhere than upon the premises designated of any article manufactured, sold or distributed by the insured; (d) if private

livery operations are included to any automobile while used as a taxicab; (e) to injury or destruction caused by the ownership, maintenance, or use of (1) any elevator, its car, platform, shaft, hoistway or appliances, (2) any mechanical or hydraulic hoist for raising or lowering automobiles or other materials from one floor, balcony, or platform to another, (3) any air or water craft, (4) caused by making additions to, structural alterations in, or the construction or demolition in whole or in part of any building, structure, elevator, mechanical or hydraulic hoist; (f) to injury or destruction caused by any person under the age of 14 years, or by any person employed by the insured in violation of any state, federal or provincial law as to age, or with respect to any automobile while being operated by any person under the age of 14 years, or by any person in violation of any state, federal or provincial law as to age applicable to such person or to his occupation; (g) by any person in any prearranged race or competitive speed test; (h) to liability assumed by the insured under any contract or agreement; (i) to any partner, if the named insured is a partnership, with respect to any automobile owned by such partner or by any other partner of the named insured or by a member of the family of any such person; or, if the named insured is an individual, to any automobile owned by a member of the named insured's family; (j) to bodily injury to or death of any employee of the insured while engaged in the business of the insured, or to any obligation for which the insured may be held liable under any workmen's compensation law; (k) to bodily injury to or death of any person from an accident while such person is in any automobile of the commercial or truck type, the use of which is insured by this policy, if more than eight persons are then in the automobile and it is being used for purposes other than the business of the named insured; (l) to property owned by, rented to, leased to, in charge of, or transported by the insured.

Damage to Property in Charge of the Insured.—The garage policy may be extended by endorsement to provide that the company will cover insured's liability in excess of \$100 per

accident for damages to automobile and property of others usually left in charge of automobile dealers, repair shops, storage garage or service stations, as a result of an accidental collision. The collision, however, must not have been caused by fire or theft. The policy does not cover loss except by endorsement caused by : (1) any elevator, its car or platform or the shaft or hoistway within which it is operated, or any of the appliances used in the operation thereof ; (2) any mechanical or hydraulic hoist used in raising or lowering automobiles or other material from one floor, balcony or platform to another.

Premium Charges.—The premium charges for a garage payroll policy covering bodily injury and property damages depend in general upon the following factors :

1. Territorial division. The divisions used are the same as those used in connection with private passenger and commercial automobiles.
2. Payroll.

Collision Premium Charges.—The following are factors which determine the premium charges for collision insurance :

1. Type of car. Premiums vary according as the car is a private passenger, commercial or public automobile, or for garages, automobile dealers, and manufacturers.
2. Territory. The territory where the automobile is garaged during the greater part of the year.
3. List price. All automobiles are classified by original price.
4. Age of automobile.
5. Use of automobile. If a commercial automobile is used for certain special types of work, such as ambulance, fire department, mail truck, the rate is increased to take care of the hazard incident to these occupations.
6. Deductible collision. The premium is decreased if a deductible clause is used.

Premium Charges for Fire, Theft, and Comprehensive Policies.—The following are factors which affect the premium charges for fire, theft, and comprehensive coverages :

1. Territory. The territory used is that city or town where the automobile is garaged for the greater part of the year.
2. Original price for actual value form.
3. Age of automobile.
4. Style of car. Rates for discontinued makes, custom built cars and imported cars are separately listed. Automobiles which are not of "Standard construction," i.e., do not comply with the standard of fire construction established by the Underwriters' Laboratories, are rated at a higher premium.
5. Hazard. Rates vary with the use of the automobile.
6. Restricted loss adjustments.

RESTRICTED LOSS ENDORSEMENTS.—Two endorsements are available for reducing premium charges for fire and theft policies: (1) three-fourths value clause, (2) 2% monthly reduction clause.

Under the three-fourths value clause, the company is not liable for more than 75% of the actual cash value at the time of loss.

The 2% monthly reduction clause, however, provides for reduction of the company's liability at the rate of 2% of the original liability per month. In the event of loss, the limit of liability in force at the time of loss will determine the company's liability, which in no event can exceed the actual cash value at the time.

Fleet Coverage.—Insurance companies recognize the distinction that must be made in rates for the owner of a fleet of cars, as contrasted with the owner of one or two cars. The possessor of several cars enjoys the reduction afforded by several plans for bodily injury and property damage which follow.

1. AUTOMOBILE FLEET PLAN.—A risk of five or more automobiles of any type owned by one insured and under one direct operating management may be written under a policy automatically covering all licensed automobiles and trailers owned by the insured during the policy period. The sliding scale

of premium reduction percentages varies with the number of licensed cars, as illustrated in Table 18.

TABLE 18. SLIDING SCALE OF PREMIUM REDUCTION PERCENTAGES

No. of Cars Licensed	Average Reduction	No. of Cars Licensed	Average Reduction
1	0%	10	5.0%
2	0	15	6.7
3	0	20	7.5
4	0	30	10.0
5	0	40	11.3
6	1.7	50	12.0
7	2.9	90	15.6
8	3.8	100	16.0
9	4.4		

The minimum premium for the policy is the manual premium for the five highest rated licensed automobiles owned by the insured at the inception of the policy.

2. COMBINATION SPECIFIED CAR AND NAMED DRIVER BASIS.—This plan is available for all types of automobile risks provided the number of automobiles insured exceeds the number of drivers. The policy must include the name of each operator and a description of each automobile.

The company is liable under this form only when the automobile is operated by the following:

1. The named operator or any person accompanying him.
2. Any person employed by a garage or automobile service station for the repairing, calling for or delivery of the automobile. The garage or service station must not be owned by the named insured, if the company is to be held liable in this instance.
3. A substitute or successor to a named operator, provided notice of the change is furnished to the company within 10 days.

A full rate is charged for the number of highest-rated automobiles corresponding to the number of named drivers, and 25% of the manual rate for each extra automobile.

3. **EARNINGS BASIS.**—Owners of certain automobiles may obtain insurance on the earnings basis. For example, three or more private livery automobiles, public livery automobiles or busses under one ownership may be insured on the earnings basis automatically, covering all the automobiles owned by the insured and licensed during the policy term.

The premium is based upon \$100 of actual total gross earnings whether or not collected for all the automobiles insured during the policy period. The minimum premium is 75% of the total of the specified car premiums for the automobiles insured.

Risks consisting of five or more commercial automobiles, tractors owned or leased by the insured whose principal business is long-haul trucking may be written on the gross receipts or gross earnings basis. The policy covers all equipment whether or not owned by the insured which is used in long-haul or local trucking operations. The total gross receipts or gross earnings includes all earnings derived by the insured from the operation of all equipment in the business whether or not such equipment is owned by the insured.

4. **MILEAGE BASIS.**—This method is available for five or more taxicabs under a single ownership. The premium is based upon the total mileage both dead and alive. The policy automatically covers all licensed taxicabs owned by the insured during the policy term. There is a minimum premium charge equal to 75% of the total premium charged specifically for each taxicab insured, but not less than the specified car premium for the five highest-rated licensed taxicabs owned by the insured at the time the policy was issued.

5. **EXPERIENCE RATING.**—This plan is available for any fleet of automobiles under one ownership and under one direct operating management. The plan provides that all risks that qualify in accordance with this rule must be submitted for experience rating. Rates will depend upon past loss experience. A discussion of experience rating is given in the chapter on workmen's compensation insurance.

Special fire and theft rates and collision premiums may be

obtained for fleets of automobiles. Eligibility for fleet rating depends upon the following:

1. The entire fleet must be under one ownership.
2. The entire fleet must be used for business purposes.
3. The fleet must consist of five or more self-propelled units excluding motorcycles.

Drive Other Cars.—By endorsement the policy may be extended to include automobiles not owned by the insured.

LIMITED FORM.—Under the limited form protection is afforded the owner of a private passenger automobile who has insurance on his own car, but who may drive other cars. The policy covering private passenger automobiles can be extended without additional premium to cover the liability of the insured while driving other private automobiles. Coverage will be extended (a) to the named insured if an individual, (b) the wife or husband of the named insured, if a resident in the household of the named insured, (c) the named insured if a husband and wife and if the private passenger automobile insured in the policy is owned by either or both. The extended coverage will not only protect the insured due to operation of any other private passenger automobile by the insured, but also includes operations by a private chauffeur or domestic servant in the employ of the insured and with respect to the presence of any such insured in any private passenger automobile. However, the coverage for other automobiles is subject to these limitations:

1. The use must be pleasure and business as defined in policy.
2. Use must be with the permission of any person having the right to grant such permission.
3. The automobile so used is not (a) owned in full or in part by, or registered in the name of the named insured or any member of the named insured's household, other than a private chauffeur or domestic servant employed in connection therewith, (b) hired as part of a frequent use of hired automobiles by, or furnished for regular use to the named insured, a member of the named insured's household, or a private chauffeur or domestic servant employed in connection therewith.
4. The extended insurance is excess insurance over any other valid and collectible insurance available to the insured.

Excepting the limitation of item 3, the extended insurance applies also to a trailer other than a "trailer home" while used for personal pleasure or family purposes and not for business.

This insurance is also available for relatives of the owner of the insured automobile residing in the household of the owner subject to a premium charge.

BROAD FORM.—The motor vehicle policy may also be endorsed under the broad form to include the liability of any interest covered under the policy for accidents while the owner of the motor vehicle described in the policy is driving or riding in any other motor vehicle. The form is subject to a premium charge. The company assumes liability only when the insured has permission to drive the car.

The broad form is primarily intended for an automobile owner required to file a certificate of financial responsibility with the state. Subject to a premium charge, the broad form coverage is available for any relative residing with the owner on the same basis as for the owner. Coverage is not provided for any motor vehicle under the following circumstances: (1) any motor vehicle owned in full or in part by the owner of the motor vehicle described in the policy or by any member of his household; (2) any motor vehicle registered in the name of such owner or any member of his household.

This extended coverage does not cover the owner of the motor vehicle in which the named insured is riding or which he is driving at the time of the accident.

Insurance Without Ownership of any Automobile.—Many persons who do not themselves own cars have occasion to drive automobiles belonging to others. To meet this need, a policy may be written to cover the named insured when driving a private passenger automobile with the permission of a person having the right to grant this permission. The named operator form covers the named insured and any person who may be riding in the vehicle with him, except the owner.

The policy does not cover: (1) a private passenger automobile registered in the name of, or owned in full or in part by the named insured; (2) use of the private passenger automobile for demonstrating or testing; (3) use of the vehicle to carry passengers for a consideration.

Coverage of All Types of Motor Vehicles.—A form is also available to cover the named insured for accidents occurring in an automobile of any type when the insured is operating with proper permission. This policy is also subject to the exclusions of part or full ownership by the insured and of registration in his name.

Hired Automobile Coverage.—A commercial concern may desire protection against the hazards incident to the operation of cars hired from others. This coverage is available in the following forms: (1) specified car basis, and (2) cost of hire basis.

SPECIFIED CAR FORM.—Insurance is available on the specified car basis at the same rate as though the hired automobiles were owned by the insured. If the rate is lower than the rate applicable to the owner of the hired automobile, the interest of the owner will not be covered under the policy.

COST OF HIRE.—If insured on the cost of hire basis, all automobiles and trailers hired by the insured are automatically covered.

It is not permissible to include the interest of the automobile owner and his employees in this coverage. The policy may also expressly exclude specific automobiles from coverage.

Employers' Non-ownership Liability.—An employer may require that some of his employees use their own automobiles in the employer's business. In return he may agree to reimburse the employee for the cost of operating the automobile. There is a possibility that the employer may be held liable for an accident caused by the employee although the automobile does not belong to the employer. If the employees have insurance on their automobiles, the policies may be endorsed to protect both the owners and their employer.

If the employer so desires, he may obtain a non-ownership liability policy covering private and commercial automobiles and trailers and semi-trailers operated by his employees in the conduct of his business. This form is available only for the operation of the commercial automobiles if occasional. The owner must not own, hire, or lease the cars.

Suspension of Use.—Among the problems which insurance companies have had to meet is the claim that, when an automobile is operated only within certain periods of the year, the insurance premium should not be charged when the car is in storage.

The privilege of suspending coverage is permitted for bodily injury, property damage, and collision insurance and the minimum suspension period is 60 days.

To be entitled to this privilege, when his car is not in use, the owner must notify the insurance company of the desire to suspend insurance. He must also give notice when he desires to bring his policy into force again. During the period of suspension, the insured is not covered against any of the hazards mentioned in the bodily injury, property damage, and collision policies. No premium is returned until the coverage is reinstated.

Statutory Insurance.—A number of states have passed laws making it mandatory for owners of public automobiles to protect the public against injuries to persons or damages to property. This may be accomplished through a bodily injury and property damage policy. The law usually establishes a minimum amount of insurance which must be carried. The New York State Vehicle and Traffic Law, for example, requires insurance on public automobiles with the limits given in Table 19 based upon seating capacity.

TABLE 19. STANDARD LIMITS FOR PUBLIC AUTOMOBILES

Seating Capacity	Bodily Injury	Property Damage
0-7	\$2,500/5,000	\$1,000/5,000
8-12	5,000/15,000	1,000/5,000
13-20	5,000/25,000	1,000/5,000
21-30	5,000/40,000	1,000/5,000
Over 30	5,000/50,000	1,000/5,000

Compulsory Automobile Insurance.—There has been considerable agitation to require every owner of a private or com-

mercial automobile to insure himself against damage resulting from injury to persons and property. The reason is that individuals with limited financial responsibility frequently operate automobiles. When a judgment obtained is against such individuals there is little chance of payment. As a result many who have been crippled, and dependents who have lost their support as a result of death from automobile accidents may not be compensated for their loss. One way to meet this situation is to require by law that individuals carry automobile insurance. The State of Massachusetts has such a law. As explained above, New York State has such a law for public vehicles. Some states, notably New York and New Jersey, have financial responsibility laws which prohibit under certain circumstances the use of a private or commercial automobile unless the owner can meet the requirement of financial responsibility.

Massachusetts Compulsory Automobile Liability Security Act.—The Massachusetts Compulsory Automobile Liability Security Act became effective on January 1, 1927. It provides in general that all kinds of automobiles, whether truck, private vehicle or trailer, must be insured. The act, however, does not affect automobile owners who are not residents of Massachusetts, such as tourists, unless under the law they are required to register their cars. Automobile owners who are residents of Massachusetts and who are registered in the state do not come under the control of the act, if they should have an accident outside of the state. It is only when the accident occurs within the state that the owner is liable.

Before an automobile can be registered in the state of Massachusetts, the owner must have provided security by one of three methods. The first method is by obtaining a motor vehicle liability policy. This is a policy of liability insurance which provides indemnity for or protection to the insured's motor vehicle or trailer with his express or implied consent against loss by reason of the liability to pay damages to others for bodily injuries or death. Each owner must insure his automobile with the \$5,000 and \$10,000 limits. Guest occupants, however, are not covered.

The second method of providing security is to obtain a motor vehicle liability bond, which provides that the obligor shall within thirty days after the rendition of judgment satisfy the judgment rendered against him or against any person responsible for the operation of the obligor's motor vehicle or trailer with his express or implied consent. The owner must also secure a bond providing the \$5,000 and \$10,000 limits.

The third method by which security is provided for registration purposes in Massachusetts is the deposit of \$5,000 in cash, bonds, stocks, or other evidences of indebtedness satisfactory to the division of highways of the department, or other evidence of indebtedness of a market value of at least \$5,000.

When presenting his application for registration each year the owner of the automobile must accompany the application with a certificate showing that one of the three methods has been complied with, or that a binder has been obtained pending the issuance of a motor vehicle liability policy.

The act is not concerned directly with injured persons, but only with the liability to pay damages to the injured persons for personal injuries including death. Moreover, injuries sustained or death must have occurred in the state of Massachusetts, and then on its public highways. Those occurring in private ways are not covered by the act. This exclusion, however, does not apply to ways laid out under authority of statute, dedicated to public use, or under the control of the park commissioner or any body having like powers.

Liability for property damage is not affected by the act. In case a property damage judgment is obtained and is unsatisfied for 60 days, however, the license is suspended unless, at the time of the accident, property damage insurance is carried in at least the amount of \$1,000.

The motor vehicle liability policy may be issued by any company, stock or mutual authorized to write liability insurance in Massachusetts. The motor vehicle liability bond may be issued by any company, stock or mutual, authorized to write surety bonds. The form of either the policy or bond must be approved by the commissioner. The policy may be cancelled by either the insured or the company provided a 15-day written notice is

given by the party proposing cancellation to both the other party and the register of motor vehicles. If a carrier cancels a policy, the automobile owner may file a complaint with the Board of Appeals.

The rates for the liability policies and bonds must be approved by the commissioner of insurance as adequate, just, reasonable, and non-discriminatory, and the classification of risks must be approved by him as fair and reasonable.

New York Automobile Financial Responsibility Act.—The act provides that the Commissioner of Motor Vehicles will require evidence of financial responsibility under the following:

1. For conviction or forfeiture of bail or collateral if a person has been convicted of any of the following offenses:

- (a) Homicide or assault arising out of the operation of a motor vehicle.
- (b) Reckless driving where injury to the person or property actually results therefrom.
- (c) Operating a motor vehicle contrary to speed laws where injury to the person or property actually results therefrom.
- (d) Operating a motor vehicle when in an intoxicated condition.
- (e) Leaving the scene of an accident.
- (f) An offense committed in any other state or province which if committed in New York would fall under any of the foregoing offenses.
- (g) Criminal negligence in the operation of a motor vehicle resulting in death.

2. For failure to satisfy within 15 days every final judgment in excess of \$100 resulting from the ownership, maintenance or use of a motor vehicle within limits of \$5,000/\$10,000 for bodily injury and \$1,000 for property damage.

In order to be permitted to operate his automobile thereafter, the owner must show financial responsibility to the state. Financial responsibility may be evidenced by the following means:

- (a) A motor vehicle liability policy of an insurance company which is authorized to transact business in the state.
- (b) The bond of a surety company which is authorized to do business in the state.
- (c) The bond of at least two individual sureties, each owning real estate approved by a judge of a court of record.
- (d) Cash, bonds, stocks, or other evidence of indebtedness.

The law also provides that before a policy for which a certificate has been filed can be cancelled or suspended, 10 days' notice must be given to the Bureau of Motor Vehicles. The insured is then required to surrender his registration plates or operator's license until a new certificate of reinstatement is filed. When a certificate of insurance must be filed to comply with the requirements of an automobile financial responsibility law, a surcharge to the premium is usually made.

Prevention of Losses.—The need to reduce losses caused by operation of automobiles is obvious. The following are among the methods which have been used to decrease accidents, as covered by various forms of insurance.

BODILY INJURY, PROPERTY DAMAGE, AND COLLISION INSURANCE.

Education. The various insurance companies publish information concerning losses, calling the attention of the public to the danger resulting from the use of automobiles. Furthermore, pamphlets giving courses in safety education are distributed by them throughout the schools.

Lectures. Safety engineers deliver lectures to chauffeurs of fleets.

Traffic Regulation. The rights of the pedestrians and of the operators of automobiles are being standardized by legislation. Laws have been passed to enforce the following safeguards:

1. Anyone who proposes to drive an automobile must pass an examination to show that he is qualified to drive.

2. Speed, especially in congested cities, is limited.
3. Traffic is directed under police department supervision.
4. One way streets must be used as such, with penalties for violators.

Inspection by Insurance Companies. In some cases the insurance companies inspect the automobile prior to issuing a policy to make certain that the automobile is in good condition. In addition, there is frequently also an investigation of the owner of the car to determine whether he is a desirable risk.

Improved Automobile Construction. This is the contribution of the automobile manufacturers towards the prevention of accidents.

Experience Rating. Wherever possible the insurance companies desire to measure the difference between careful and careless drivers. By the use of the experience rating plan, credits are allowed to owners of fleets of automobiles, if their past loss experience is good and a charge is made, if their experience is bad.

THEFT INSURANCE.—The following methods have been devised to reduce theft losses :

Title Laws. Many states have passed laws prohibiting the sale of automobiles unless the seller can give a title certificate registered by law.

Central Information Bureau. The automobile insurance companies have organized a central bureau to investigate thefts of automobiles. The bureau has succeeded in apprehending many criminals.

Dyer Act. Congress has enacted legislation providing that the transportation of stolen automobiles between states is a violation of the interstate commerce laws and, therefore, a federal crime.

FIRE INSURANCE.—An automobile manufacturer may submit his automobile for examination by the Underwriters' Laboratories for approval. The organization will offer suggestions for the reduction of fire hazard and point out defects in construction and material.

CHAPTER 17

AVIATION INSURANCE

Aviation Legislation.—Insurance companies have had experience in the underwriting of aviation risks since 1912. This experience, combined with the advance in technical knowledge since the early days of aviation, has enabled some insurance companies to prepare rates for the various risks which arise from the business of aviation. While insurance against various aerial hazards has been available from the earliest days of practical aircraft, it must be stated that aircraft insurance up to the present time has been one of preparation. The real development of aircraft insurance dates from the World War which gave stimulus to the manufacture and use of aircraft.

Classification of Policies for Aircraft Hull Coverage.—As in other fields of insurance, aviation insurance policies have been developed to cover the hazards incident to the ownership and use of aircraft. Coverages for the hull may be classified under seven headings:

1. Fire, lightning, self-ignition, and explosion
2. Transportation
3. Tornado, cyclone, and windstorm
4. Theft, robbery, and pilferage
5. Land damage
6. Crash
7. Mooring (applicable to seaplanes)

In addition public liability and property damage insurance is available.

Miscellaneous coverages are also offered under these forms:

1. Hangar keeper's legal liability
2. Airport liability
3. Personal accident
4. Group accident

Fire Coverage.—Fire coverage may be broad or restricted, depending upon the perils included in the schedule and includes loss due to fire, lightning, self-ignition, or explosion. The applicant may select one of the following coverages and pay the appropriate premium:

1. Fire under all circumstances.
2. Same coverage as (1), excluding fire following crash.
3. Fire while not in flight, including while the engines are being started and are running.
4. Fire while not in flight, excluding while starting or attempting to start.

Transportation Coverage.—Transportation coverage is included in the fire coverage clause of the policy. The company thereby assumes liability for losses occurring during transportation from the stranding, sinking, burning, collision or derailment of the conveyance. The company's liability includes both general average and salvage charges.

The loss must occur, however, within the geographical limits designated in the policy. Furthermore, the aircraft must have been properly dismantled and prepared for shipment.

Tornado, Cyclone, and Windstorm Coverage.—This clause covers damage to the aircraft by tornado, cyclone or windstorm except while in flight or taxiing subsequent to flight until the aircraft has reached a terminal or parking place.

Theft, Robbery, and Pilferage Coverage.—Within the same restrictions found in other branches of insurance, this clause covers loss caused by thieves. Acts of theft committed under the following circumstances are excluded: (1) by any person in the insured's household service or employment, whether or not within the regular hours of employment; (2) when the insured has voluntarily parted with title, custody, or possession whether or not through false pretense or trick.

In the event of recovery of property after a theft, the company has the right to return the property at any time before actual payment of the loss with compensation for physical damage.

Land Damage Coverage.—Land damage coverage is available in two forms. Under the broader form, the company assumes liability for damage to aircraft while on land from hail or collision with another aircraft, vehicle, or moving object. The following perils are not covered: (1) collision with any aircraft, vehicle, or moving object owned and operated by the insured or any of his employees, (2) losses while the aircraft is in flight or taxiing after flight until it reaches the terminal or parking place. Taxiing before flight or to pick up gasoline, however, is not subject to this exclusion.

A second land damage form is similar to the first, except for the additional exclusion of damages sustained while the aircraft is moving under its own power.

Crash Coverage.—This clause covers damage to aircraft during flight from collision with the ground, water, or other object. The company assumes liability for fire and explosion losses caused by collision, including water damage, stranding, and sinking. If an aircraft takes off and is lost and unreported for a certain period such as 60 days, it is deemed a loss under this coverage.

Mooring Coverage.—Mooring coverage applies to water-alighting aircraft damaged by windstorm, hail, stranding, sinking, or collision with another aircraft, vehicle, or object while moored. As implied by the title of the coverage, the company is not liable for losses occurring while the airplane is in flight or being taxied subsequent to flight until it reaches a terminal or moving place. As in other coverages, collision with vehicles and objects owned or operated by the insured or any of his employees is excluded from coverage.

Application for Hull Coverage.—The policy for the various hull coverages just described is issued on the basis of an application. Among the data commonly required in the application may be mentioned the following:

1. Description of aircraft and engine.
2. Location and construction of hangar.
3. Geographical limits within which aircraft will be used.

4. Novel experimental features of design or material.
5. Pilot's name, age, license number, and classification.
6. Total number of solo hours flown by the pilot during his entire flying career as well as the number flown for the last 90 days prior to the date of application.

LIMITS AND MEASURE OF LIABILITY.—The company's liability for loss under the policy cannot exceed the cash value at the time of loss or the cost of replacing or repairing the damaged part. In the event of total loss, liability on an aircraft, whether insured at its full retail list price or, by endorsement and for lower premium at less than retail value, cannot exceed the amount of insurance less depreciation at the annual rate of 25%.

The company, if it chooses, may take all or any part of the property at an agreed or appraised value. It may also repair, replace, or rebuild lost or damaged property with like kind and quality, upon giving notice of its intention within a stipulated period after receipt of proof of loss. In no sense, however, may property be abandoned to the company. In the case of partial loss, when repairs are made by the insured, the limit of liability is the actual cost of any parts necessary to effect repairs or replacement, plus the insured's actual labor cost and as an allowance for overhead and overtime, the insured is permitted to include 50% of labor cost. When repairs are made by an outside party, the company's liability is the actual cost less discounts as evidenced by paid invoices. The insured is also indemnified for the cost of transporting new or damaged parts or the damaged aircraft to the place of repair by the least expensive route available. In no event, however, may the liability of the company for a partial loss exceed the amount of liability which would be assumed if the aircraft were a total loss.

The liability of the company as thus determined is subject, except for fire loss, to a further deduction which is specified in the policy as applicable to each loss.

AUTOMATIC REINSTATEMENT.—Upon the occurrence of any loss, the amount of the policy is reduced by the amount of loss until repairs are completed. At that time the payment of an

additional pro-rata premium will restore the insurance to the amount originally written.

DUTIES OF INSURED.—Unconditional and sole ownership is essential unless otherwise permitted by endorsement. The policyholder must give notice to the company of any alteration or circumstance materially affecting the nature of the risk. It is his duty to protect the property after loss, to obtain witnesses, and to help prosecute suits, and any expense so incurred is a claim under the policy.

However, any reward which the insured pays for the recovery of property is at his expense unless authorized by the company.

Each claim must be supported by a log book, separately maintained for each pilot, aircraft and engine in the form prescribed by the Civil Aeronautics Authority. If no agreement can be reached as to the amount of loss, the policy provides for the appointment of appraisers who in the event of disagreement may appoint an umpire. The appraisers or umpire will render an award in writing as to the sound value and the amount of the loss sustained.

COINSURANCE.—In the event of loss, the liability of the company is limited to that portion of the loss which the amount insured bears to the actual cash value of the property covered at the time the insurance was effected.

The policy is, therefore, subject to the 100% coinsurance clause.

BAILEE'S LIABILITY.—The company is not liable for damage of any aircraft while in the possession of a carrier or other bailee to whom the insurance is made payable. When the carrier or bailee is liable for a loss, the company is bound only to advance the amount of loss by way of a loan. This advance must be returned to the extent of the net amount which was collected from the carrier or other bailee after deducting collection expense.

Exclusions.—Unless otherwise provided by written agreement, no liability attaches for the losses and perils which are listed below:

1. Perils of invasion, insurrection, strike, riot, military, naval or usurped power, and civil war or commotion.
2. Losses sustained by order of any civil authority.
3. Damage resulting from running the engines of the aircraft or from fueling the aircraft in the hangar or place of housing.
4. Damage occurring when insured does not comply with the regulations of the Civil Aeronautics Authority, or when, with the knowledge or consent of the insured, the vehicle is used for unlawful purpose.
5. Damage while the aircraft is used for purposes other than specified in the schedule of statements as described previously.
6. Accidents occurring while the aircraft is operated by any person other than the pilot described in the policy or specifically approved by endorsement. Taxiing by licensed employee mechanics is not subject to this exclusion.
7. Damage of aircraft when operated by a pilot or mechanic who does not hold a valid and current certificate issued by the Civil Aeronautics Authority.

When the policy provides crash coverage, the following exclusions must be added to the above list. No liability attaches for damages sustained:

1. While the aircraft is flying over water more than 25 miles from land.
2. While the aircraft is operated in any race or speed contest, or during or in consequence of acrobatic flying, i.e., any intentional maneuver not necessary for safe navigation.

3. While the aircraft is flying between one hour after sunset and one hour before sunrise, unless the aircraft is equipped for carrying passengers for hire at night as prescribed by the Civil Aeronautics Authority, and unless such flight is made only between lighted airports.

Public Liability and Property Damage Insurance.—This coverage is similar to automobile bodily injury and property damage insurance in affording protection to the insured against liability for injury to the person and property of others resulting from the negligent operation of aircraft.

The standard limits for the public liability and property damage insurance are \$5,000 for injury to one person and \$10,000 for injury to several persons in one accident and \$1,000 for property damage.

NAMED INSURED.—The named insured includes the person named in the policy and under the following conditions any other person riding in the aircraft, an approved pilot or any other person who is responsible for its operation provided that:

1. Permission is granted by the named insured.
2. These other persons are not protected by other valid and collectible insurance against the risk which is covered by the policy.
3. If the insured is an aircraft or aircraft engine manufacturer, only an officer, executive, employee, or agent of the insured or an employee of the agent is covered. The same rule applies if the insured is a hangar keeper or aircraft operator or conducts an aircraft repair or service station, sales agency, flying school, or flying club. When the insured is engaged in any of these employments, however, the insurance company is not liable for any claims which may arise through injury to an employee by reason of the negligence of another employee of the insured.

EXCLUSIONS.—The bodily injury and property damage policy does not cover liability for injuries which may be sustained under the following conditions or perils except by means of endorsement:

1. Running aircraft engine in the hangar or other place of housing.
2. Violation of any regulation of the Civil Aeronautics Authority.
3. Use of aircraft with the knowledge or consent of the insured for an unlawful purpose.
4. Operation of aircraft, by any person except a specifically approved pilot or for purposes not mentioned in the policy. Taxiing by licensed employee mechanics is not subject to this exclusion.
5. Operation by any pilot or mechanic who does not hold a valid and current certificate issued by the Civil Aeronautics Authority.
6. Flying the aircraft over water more than 25 miles from land.
7. Use of aircraft in race or speed contests or attempt at record breaking or for acrobatic flying.
8. Flying at night one hour before sunrise or after sunset, while carrying a passenger and covered for passenger liability, unless the aircraft is equipped with night-flying equipment prescribed by the Civil Aeronautics Authority. Furthermore, to escape the exclusion, flights must be conducted between lighted airports.

Hangar Keeper's Legal Liability Policy.—The hangar owner is protected by the hangar keeper's legal liability policy against his legal liability for the aircraft of others while in his custody for storage, safekeeping, or repair.

From the standpoint of location, the aircraft is covered while in the premises of the insured; while temporarily removed from his premises for testing or repairs by the insured: or while being called for or delivered in accordance with contract. The company assumes liability for the following losses and perils, subject to specified deductions:

1. Legal expenses paid by the insured with the company's consent.
2. Fire losses, except as the result of transportation or crash.
3. Tornado, cyclone and windstorm damage.
4. Theft, robbery, and pilferage.
5. Land damage.

EXCLUSIONS.—The company is in no case liable for damage to merchandise in any aircraft. Aircraft owned by the insured, his family, or employees is likewise excluded. If the insured is a corporation, any officer and his family are subject to the same exclusion.

Airport Liability Policy.—The airport liability policy protects the operator of an airport against liability for accidents at his airport.

APPLICATION.—The application for this policy may contain the following information in order to determine the extent of the risk:

1. Whether applicant sells gasoline or oil.
2. Whether applicant directs aircraft by radio or other means.
3. Whether applicant repairs aircraft.
4. Area of airport.
5. Number of lineal feet fronting street or highway.
6. Whether airport is entirely fenced and height and construction of any fencing.
7. Any construction work in progress at airport or anticipated during the next 12 months.

8. Number of aircraft usually located at hangar.
9. Whether airport is equipped and used for night-flying.
10. Whether students are instructed at airport.
11. Whether an entire hangar or the whole airport is leased.
12. Whether any hangar is used exclusively for storage of aircraft owned, operated, controlled, or placed in the custody of the insured.

EXCLUSIONS.—The airport liability policy is subject to the same general exclusions found in the owner's, landlord's, and tenant's liability policy. Liabilities arising for accidents under the following circumstances are likewise excluded :

1. Any workmen's compensation plan.
2. Imposed upon the insured by any laws referring to the sale, gift distribution or use of alcoholic beverages.
3. Assumed by the insured under any agreement.
4. Aircraft and watercraft owned, hired, or controlled by the insured or by his agents, employees, and pupils. Temporary and necessary direction of aircraft not owned or hired by the insured over and about the premises, however, is not excluded.
5. Ownership and use of any grandstand or seating structure.
6. Defects in a collapse of grandstands and seating structures of any kind.
7. Air meets and demonstrations on or about the premises for which admission charges are made.
8. Unlawful use of any aircraft with the consent or knowledge of the insured.
9. War, invasion, insurrection, riot, civil war or commotion, military, naval, or usurped power.
10. Destruction authorized by any civil authority.
11. Damage to or destruction of property due directly or indirectly to :
 - (a) The explosion, collapse, or rupture of any boiler or other receptacle, or any part thereof, under pressure.
 - (b) The breaking, collapse, or rupture of any boiler or other receptacle, or any part thereof, under pressure.

- (c) The breaking, disrupting, or tearing asunder of any engine, flywheel or turbine.
- (d) Explosions of any character not hereinbefore excluded.
- (e) Fire, however caused, other than fire caused by or to an aircraft in consequence of flight.
- (f) The discharge, leakage, or precipitation of water or steam from automatic sprinkler systems, plumbing systems, plumbing tanks, steam or water heating pipes or radiators, elevator tanks or cylinders, stand-pipes for fire hose, and rain or snow admitted to the interior of buildings by defective roofs, leaders or spouting, or through broken or open windows or skylights, at or from premises owned, leased, or rented by the insured.
- (g) The breaking, burning out, or disrupting of any electrical power unit.

Air-Meet Coverage.—By endorsement, coverage may be extended to include aerial demonstrations and meets held at the airport at various times, each such event being separately insured and specifically rated.

Personal Accident Insurance.—An aviation personal accident policy is available which provides indemnity when the insured loses his life, limbs, sight, or time as a result of bodily injuries effected through accidental means covered by the policy. A description of an accident policy used by some companies follows. The insured is protected while riding as a passenger, pilot, operator or member of a crew upon an aircraft or while engaged in flight.

APPLICATION.—The application for personal accident insurance contains the following information to determine the extent and acceptability of the risk :

1. Geographical limits of flights.
2. Nature of flights and whether test flights will be undertaken.
3. Whether landings will be limited to recognized aerodromes except in case of accident.

4. Whether flights will be made by order of any naval or military authority.
5. Whether flying will be limited to aircraft operated in scheduled service of airlines granted a certificate of authority by the Department of Commerce. When flying is conducted in any other aircraft, the application must state the make and motor number of the aircraft, the make and license number of the engine, and the pilot's name, flying experience, and type of license.
6. Number of hours which the insured has flown and is expected to fly during the next 12 months.
7. In the event the applicant holds a valid pilot license, the type and grade of the license and the number of his solo flying hours.
8. Whether the applicant is flying for his own account or on behalf of an employer. In the latter event, the name and address of the employer must be furnished.
9. Whether a parachute will always be worn by the insured while flying as a pilot.

LIMIT OF LIABILITY.—The principal sum is payable for loss of life, both hands, both feet, sight of both eyes, one hand and one foot, or of one hand or foot and the sight of one eye. Half this principal sum will be paid if the insured suffers the loss of one hand, one foot, or the sight of a single eye.

If the insured is totally disabled within 20 days from the time of the accident, the company will pay him a weekly indemnity for a period of 26 weeks. He is not entitled to this benefit if he is indemnified for the specific loss of a part of his body.

EXCLUSIONS.—The company is not liable under the following circumstances:

1. The flight of a newly constructed aircraft, or of any aircraft in which any material change or alteration in the construction, material or parts thereof, or in the type of engine used therein, has been made, if such flight is undertaken prior to the aircraft having made a complete circuit in the air and a successful alighting without accident.

2. Descents upon water in the case of a land-alighting aircraft or descents upon land in the case of a marine aircraft except in case of accident.
3. Acrobatic flying, i.e., any intentional maneuver not necessary for safe navigation.
4. Racing, pacemaking, speed testing or attempted record-breaking.
5. Flying one hour after sunset or one hour before sunrise, standard time of place of flying.
6. Flying over water beyond five miles from shore in the case of water-alighting aircraft or flying over water beyond one mile from shore in the case of land-alighting aircraft.

STANDARD PROVISIONS.—The policy contains the various standard provisions required by law as described in the chapter on accident insurance.

Aviation Group Accident Insurance.—A single policy, sometimes called *airsurance*, may be attractive to an employer having employees using airlines in the course of their employment. It is possible to include in the one policy coverage of partners, principals, executives, and officers and employees of both the company and its subsidiaries. In the event of an accident, the employer simply pays the employee or his estate or dependents the sum stated in the policy and the insurance company will reimburse the employer.

The policy is based on an agreement by the employer voluntarily to pay certain sums for fatal injury or dismemberment of his employees in accidents occurring during business trips on scheduled airlines. The company assumes liability for each employee named in the policy or in any endorsement up to the limit which the employer designates for the employee. Coverage may also be provided for other employees whose names and limits of liability prior to any flight, are mailed or telegraphed to the company. The policy provides for a maximum limit of liability for two or more employees, any one aircraft in any one aviation accident. The coverage is for death or bodily injury effected solely through accidental means within the

geographical limits of North America while the employee named as a passenger is boarding, riding in, or alighting from an aircraft operated on a regular schedule by an airline holding an airline certificate from the United States Bureau of Air Commerce. In addition, the policy covers the employee in his capacity as a passenger at an airport or place of forced landing if he is struck by any aircraft or propeller or suffers bodily injury through drowning or exposure while awaiting rescue.

LIMIT OF LIABILITY.—The company will pay the full designated indemnity when the insured accident results in the following specific losses:

1. Life, if death results at any time within 90 days from the accident.
2. Any two extremities by severance at or above the wrist or ankle.
3. Sight of both eyes if irrevocable.
4. One eye irrevocably and one extremity by severance at or above the wrist or ankle.

One-half the designated limit is payable should the employee lose the sight of one eye irrevocably or one extremity by severance at or above the wrist or ankle.

EXCLUSIONS.—The group accident insurance policy is subject to the following exclusions:

1. Suicide, attempted or effected by the employee, while sane or insane.
2. Death or injury of employee while the employee is insane, intoxicated, violating the law, fleeing from justice, or resisting arrest.
3. Death from disease.
4. Death or injury resulting directly or indirectly from war, invasion, strike, insurrection, riot, civil commotion, or from military, naval or usurped power.

Aviation Insurance Premium Charges.—While rates are published by aviation insurance companies for similar risks, so many factors enter into the rating of an aviation risk, that not

many risks are identical. Hence it is the customary practice to rate each risk upon its individual merits.

Rates for the various lines are based on the following classification of uses to which the aircraft may be put:

1. Private use, that is, pleasure or personal travel and private business.
2. Industrial aid, which designates aircraft used by business organizations to transport executives and employees in commercial travel.
3. Flying service, which includes passenger-carrying and chartered flights, but not student instruction.
4. Flying service, which includes passenger-carrying and chartered flights, as well as student instruction including student solo flights.
5. Scheduled air lines.

Fire Damage.—Rates for fire coverage vary with the form used, which, as previously explained in this chapter, may be one of the following:

1. Fire under all circumstances.
2. Fire, except when following a crash.
3. Fire, while not in flight.
4. Fire, while not in flight, excluding running of engines.

Windstorm Damage.—Rates are quoted on the following bases, the charge being increased as the deductible percentage for loss is reduced: (1) 5% deduction of the amount of insurance with a minimum of \$50; (2) 2½% deduction of the amount of insurance with a minimum of \$50.

The quoted rates are the minimum rates and are increased substantially in storm areas.

Land Damage.—Land damage rates vary according to the form used which, as previously explained, may include limited taxiing or totally exclude aircraft moving under their own power, and provide for a 2½% deductible and a minimum deduction of \$50 from each loss.

Theft, Robbery, and Pilferage.—Rates for theft, robbery, and pilferage coverage provide a \$25 deduction from each loss.

Crash Damage.—In connection with crash and public liability coverages, premiums are adjusted for type and use of aircraft and experience of pilots. For private owners, rates depend upon the pilot's experience under the following recognized classifications, which are listed in the order from the lowest to the highest premiums :

1. Experience of 250 hours or over.
2. Experience of from 100 hours to 250 hours.
3. Experience of less than 100 hours.
4. Amateur licensed pilot.
5. Student pilot.

The crash coverage provides for a deduction of 10% of the amount of insurance and a minimum deduction of \$100 from each loss.

Mooring Damage.—Mooring rates are quoted subjected to a 5% deduction of the amount of insurance and a minimum deduction of \$50 per loss.

Public Liability and Property Damage Liability.—Rates for public liability insurance and property damage insurance are determined on the basis of the use of the aircraft for commercial purposes, that is, for industrial aid, flying services, excluding student instruction, and flying services including student instruction and including student solo flights. The coverage excludes passenger liability. Separate rates are quoted if passenger liability is to be included. For passenger liability the rate depends on the number of passenger seats in the aircraft. The passenger liability coverage is a separate coverage and the purchase of that coverage is optional with the public liability coverage. The rate for public liability and property damage liability insurance for aircraft operated by private owners depends upon the experience of the pilot similar to crash damage insurance and the number of seats for passenger liability coverage limited to guest passengers only. If the pilot is an amateur licensed pilot or student pilot, passenger carrying is prohibited.

Underwriting Principles.—Aviation insurance is founded on three fundamental underwriting principles: (1) satisfactory

moral hazard, (2) satisfactory physical hazard, and (3) adequate experience for evaluating risks.

SATISFACTORY MORAL HAZARD.—The applicant for insurance must have sufficient capital, operate with efficient personnel, and possess proper facilities and material for satisfactory maintenance. In addition, the type of plane used must be one which has been successfully used.

SATISFACTORY PHYSICAL HAZARD.—This involves four considerations: (1) type of plane used, (2) qualifications of the pilot, (3) territory to be flown over, and (4) purpose of the flying.

The particular type of plane to be used must be familiar to the underwriter. He should know the type of machine, the construction and weak points, if any, the plane's performance—that is, high speed, landing speed, useful load, passenger and cargo capacity, and whether the craft possesses safety features, such as fire extinguishers or proper brakes. The underwriter should also know the territory over which the plane will be flown.

ADEQUATE PREVIOUS EXPERIENCE.—The third principle is the most difficult feature of aircraft underwriting. As yet the experience is limited. Because of this limited experience, aircraft insurance cannot be rated according to a standard of rates. Each risk must be rated separately, since no two risks are alike. The plane, the pilot, the moral hazard, the housing of the plane, the territory to be flown over, and the purpose of the flying, nearly always vary.

Essential Limitations.—In the basic form, coverage is provided for a named approved pilot or licensed aircraft. By endorsement, however, additional named approved pilots may be included in the policy. This endorsement is beneficial to principals of organizations which use their own aircraft. In the case of schools and clubs, manufacturers of aircraft, and repair and service risks, coverage is limited to executive and approved employees, except for ground coverage where the limitations is obviously unnecessary.

It is also possible to name more than one pilot in the policy

and in some cases to obtain a policy covering any pilot who holds a certain grade of license.

The exclusions of the policy are designed to keep the risk within certain bounds and may usually be eliminated by endorsement and the payment of additional premium. The observance of regulations made by the Bureau of Air Commerce, however, cannot be avoided by endorsement.

Flying Hour Basis.—It is possible to obtain insurance for five or more aircraft on a flying hour basis. The premium is based upon a monthly reporting of hours and represents an average instead of an individual rate for each airplane.

Hull Rates.—When a dealer owns a varying number of aircraft of different values throughout the year, the premium may be based upon the average value at risk during the year. For crash insurance the premium will be based upon the number of hours of use of the various aircraft.

More Airplanes than Pilots.—A reduced rate will be charged to an owner who has more airplanes than pilots. If, for example, he owns three airplanes and employs two pilots, he will be charged full rates for two airplanes and a reduced rate for the third airplane.

Airlines.—In the case of airlines conducted under the supervision of the Department of Commerce, rates for bodily injury and property damage, excluding passenger hazard, may be computed on the number of miles traveled by each ship. The premium for passenger liability is based on the number of passenger miles, which means the number of miles each passenger is carried during the policy period.

Test Flights.—A policy may be issued covering test flights, but complete data are required on the design, construction and workmanship of the aircraft and the nature of tests.

Mortgagee's Interest.—A policy will be issued to cover the mortgagee's interest and all warranties eliminated as far as his interest is concerned. The policy is written for the amount of the unpaid balance and is reduced by the monthly payments provided in the sales contract.

Lay-Up.—A return premium will be allowed if the aircraft is laid up for not less than 90 consecutive days. The maximum return premium allowed is for a period of 180 days. A credit of the pro-rata premium for the permissible days of lay-up is applied against the renewal premium of the policy. If the policy is not renewed, however, the return premium will be calculated on a short-rate basis for the number of days of lay-up.

Public Liability.—A policy may be issued to cover a school's legal liability to a student and also may be endorsed to cover accidents for which the student may be responsible while learning to fly the aircraft.

The liability policy covers the liability of the owner of the airplane. By endorsement, however, the insured may be protected against liability while he operates aircraft which he does not own.

CHAPTER 18

STEAM BOILER AND MACHINERY INSURANCE

The use of boilers, engines, turbines, and various electrical apparatus has increased hazards for which insurance coverage must be provided. There is a possibility that while a boiler or engine is in operation, an explosion or breakdown may occur, injuring persons, destroying property, and possibly causing suspension of business. Electrical apparatus may also be disabled while in operation, causing heavy financial loss and necessitating the installation of new parts. Protection is provided against these hazards by steam boiler and machinery insurance.

Steam Boiler Insurance Policy

Provisions.—Unlike most forms of insurance, both the boiler policy and the machinery policy embody only the general outline and the general conditions of coverage. Specific coverages and specific conditions are found in the various schedules and endorsements which form a part of the policy. This method is necessitated by the multiplicity of objects and their peculiarities which must be individually described.

The boiler policy provides for a limit for each accident which occurs during the term of the policy. The coverage for each accident is divided into five sections as follows:

SECTION I.—The company will pay the insured for loss on the property of the insured directly damaged by accident. The company may elect to repair or replace the damaged property. The policy does not cover: (1) loss from fire or from the use of water or other means to extinguish the fire, (2) loss from an accident caused by fire, (3) loss from delay or interruption of business or manufacturing or process, (4) loss from lack of power, light, heat, steam or refrigeration, (5) loss from any indirect result of an accident.

SECTION II.—Provides that the company will pay the extra cost represented by items of expense for temporary repair or for expediting the repair of the damaged property of the insured including overtime cost and the extra cost of express or other rapid means of transporting material. However, if the company's payment under Section I is \$1,000 or less, the company's liability under Section II may not exceed an amount equal to the payment under Section I. If the payment under Section I exceeds \$1,000, the company's liability under Section II may not exceed \$1,000 plus 25% of the amount by which the company's payment under Section I exceeds \$1,000. The company's liability under Section II is a part of the limit of accident stated in the policy and not an additional amount over and above the limit per accident.

SECTION III.—Provides that the company will pay: (1) to the extent of the indemnity remaining after payment of all losses as required under Section I and Section II, any amount which the insured is obligated to pay by reason of the liability of the insured for loss of property of others directly damaged by the accident, including liability for loss of use of the damaged property of others; (2) the cost of defending the insured against any claim or suit alleging such damage.

SECTION IV.—Provides that the company: (1) will pay to the extent of any indemnity remaining after payment of all loss as may be required under Sections I, II, and III, such amounts as the insured may be obligated to pay by reason of the liability of the insured, including liability for loss of service on account of bodily injuries (including death at any time resulting therefrom) sustained by any person and caused by the accident; (2) will defend the insured against any claim or suit alleging such liability. The company is not liable except in certain states for any claim under any Workmen's Compensation Law. The company will also pay, if loss under Section IV is covered, irrespective of the accident limit for immediate necessary surgical relief rendered at the time of the accident.

SECTION V.—The company is liable in connection with claims arising under Sections III and IV for interest accruing

after judgment is entered, and also for the cost of the appeal bonds.

Limit of Liability.—The limit which is payable for any accident under a boiler policy, as the above shows, is paid progressively in the following sequence, Sections II and IV constituting optional coverages :

1. Loss of the insured's property including the insured object.
2. Expediting costs.
3. Damage to property of others.
4. Personal injury.

The boiler policy provides for the payment of losses involved in each accident during the policy term provided that at the time of the accident the object was in use or connected and ready for use at the location designated for it in a schedule accompanying the policy and in which the object is described. The amount paid for any one accident, however, may not exceed the amount specified as the limit per accident. The term "one accident" means one loss or disaster, and includes the explosion at the same time or in immediate succession of different boilers or of different parts of one boiler.

Though the amount of insurance in case of any one accident is limited, there is no limitation as to the number of accidents. Similar to most liability policies, the boiler policy is of a continuous indemnity type. As long as the policy is in force the company is liable for each accident up to the limit of liability for one accident.

When any parts of the damaged property must be repaired or replaced, the company's liability for repairs and replacements does not exceed the cash value of these parts or of the entire object, whichever is lower. In computing the actual cash value, deductions are made for depreciation however caused.

In the event that the company and the insured cannot reach an agreement as to the extent of any loss, the amount is determined by an appraisal if the insured so elects.

Other Insurance.—The boiler policy also provides, in connection with personal injury liability coverage, that if at the

time of an accident there is in effect any contract or other provision covering the personal injury liability loss, the company is liable only for that part of the loss which exceeds the amount of other insurance. This rule applies whether the indemnity is to be paid by another insurance company, by any association or individual, or by a corporate or political body.

With respect to loss of property of insured, expediting costs, and damage to property of others, the company's liability under a boiler policy is regarded as contributing insurance with any similar valid and collectible insurance.

Suspension.—The company has the right at all reasonable times to inspect the various objects. Upon the discovery of any dangerous condition with respect to any object, any representative of the company may suspend the insurance by written notice mailed or delivered to the insured at the latter's address or to the location of the object to which the suspension applies. A pro-rata premium adjustment is made in the insured's favor for the period of suspension on the object. The suspended insurance may be reinstated by endorsement.

Endorsements.—Provisions of both the boiler and machinery policies may be modified by the use of the following endorsements:

1. Part-time operation or suspension.
2. Indefinite suspension and reinstatement.
3. Varying limits for several locations covered under one policy.
4. Deductible liability.
5. Permission for transfer of objects.
6. Operation during suspension.
7. Newly acquired objects.

Part-Time Operation.—Any object which may be covered by a boiler or machinery policy is eligible by endorsement for part-time operation or suspension, provided the object is out of service for three or more whole consecutive months. No premium adjustment or refund is granted for objects which are not out of service for this minimum period.

When an insured object is seasonably operated and periods of idleness are definitely known in advance, the company may attach either a part-time operation endorsement or a suspension of insurance endorsement. Both endorsements have the identical effect of suspending insurance for definite predetermined periods. The two endorsements differ, however, in adjusting the credit for the period of suspension, as follows:

1. The part-time operation endorsement is issued at the same time as the policy and does not provide for a return of premium. Instead, this endorsement states how much has been deducted from the premium for the suspension.

2. The suspension of insurance endorsement is employed in connection with an object already covered by the policy, when suspension is desired for a specified period. This endorsement grants a return premium for the period of non-operation.

Both endorsements are designed properly to describe the suspended object, the duties of suspended liability and the period of suspension.

Indefinite Suspension and Reinstatement.—An object may not be subject to seasonal operation or the exact dates of non-operation may not be exactly known. The indefinite suspension endorsement may then be used to suspend the insurance as of the effective date of the endorsement. Upon suspension, the insurance is not in force with respect to accidents occurring after noon of the effective date of suspension.

The insurance may be reinstated by a reinstatement of insurance endorsement attached to the policy. The reinstatement endorsement takes effect with respect to accidents taking place after noon of the date specified in the endorsement.

If a written request for reinstatement is received within thirty days after the object is again placed in operation for the first time after the effective date of the suspension endorsement, the reinstatement takes effect at the time the object was placed in operation. In case, however, the written request is not received within the 30-day limit, the reinstatement takes effect only upon receipt of the written request.

A return premium is granted for the total number of months during which the insurance has suspended, provided the suspension period was at least three consecutive whole months.

Varying Limits Endorsement.—Where coverage is provided for several locations with varying degrees of hazard, it may be desirable to have different limits per accident. This purpose is served by the varying limits endorsement.

As a result, the limit per accident with respect to property at the designated location is the amount stated in the endorsement rather than in the insuring agreement.

When several insured objects are involved in the accident, the company's total liability for that accident does not exceed the amount stated in the policy as the limit per accident for that object for which the greatest limit is set.

Deductible Liability.—Deductible liability policies are available in which the insurance applies only on the part of a loss from an accident in excess of a stipulated amount. The endorsement must specify the deductible amount which the insured assumes and which is deducted from each loss.

Deductible liability is not afforded where the limit per accident is \$10,000 or less. Furthermore, the deductible amount may not be greater than the respective limit per accident. If an accident involves two or more objects, the amount deductible for the accident is the largest amount stated in the endorsement for any of the objects involved.

Permission for Transfer of Object.—When the insured has occasion to move objects to his other plants, he may obtain permission by endorsement. This endorsement is granted under the following conditions: (1) There must be another object insured under the policy at the location to which the object is removed. (2) The insured must give the company written notice at least 60 days after the object is moved. (3) The insured must pay any additional premium from the date of moving the article to the new location if required by the manual and rules and rates in effect at the date of the policy.

The transfer endorsement is nullified if any state or local

law or regulation is violated in moving the article to the new location. Furthermore, this endorsement does not apply under any condition except at the specified locations from which and to which the object is respectively moved.

Operation during Suspension.—In certain plants it is occasionally necessary to operate objects for short periods. This brief period of operation may be required to maintain the equipment and for other purposes. As a result, the insured would be prevented from obtaining any reduction in premium for suspension, since the non-operation period would generally be for less time than the required suspension period. For an additional premium, however, this contingency is avoided by adding the endorsement permitting limited operation during suspension.

The operation during suspension endorsement is available either on a weekly or monthly basis. The weekly endorsement grants the insured permission to place in operation any insured object subject to an indefinite suspension endorsement. The period of operation must not exceed 24 consecutive hours designated as the maintenance period. The insurance will then be in force despite the indefinite suspension period, provided the object had not been in operation during the five days preceding the maintenance period. If, on the other hand, the object is placed in operation less than five days after a maintenance period, no coverage is provided. In that event, the policy can be reinstated only under the provisions of the indefinite suspension endorsement, the temporary operation terminating the suspension period.

The monthly endorsement provides for a maintenance period of 48 consecutive hours and for a non-operating period of 25 days preceding the maintenance period and a reinstatement requirement if the object is placed in operation less than 25 days after the maintenance period. In other respects, the two endorsement forms contain the same provisions.

Newly Acquired Objects.—When the insured anticipates the installation of additional objects at any location covered by the policy or the acquisition of new properties on which there

may be objects to be insured, protection may be afforded by attaching to the boiler or machinery policy the standard endorsement for newly acquired objects.

The company requires a written request for insurance on the newly acquired or installed object within 60 days from the date of its first operation by the insured. If this request is not received within 60 days, the insurance does not take effect until the request is in the company's hands.

The insured must pay an additional premium for the insurance on the object in accordance with manual rules and rates in effect at the issuance date of the policy.

Loss from any accident to a newly acquired or installed object is subject to a specified limit per accident. The company is not liable, however, under the following conditions: (1) violation of any law or legal regulation, and (2) any loss on portable objects which may readily be moved from place to place.

Boiler Policy Schedules.—Various schedules are attached to the boiler policy to cover different objects. The following schedules will be discussed as illustrations:

1. Boilers, except cast iron boilers
2. Cast iron boilers
3. Unfired vessels
4. Replaceable service tanks
5. Residence boilers and vessels

Boilers (except cast iron).—This schedule covers all types of boilers and other fired-pressure vessels except cast iron boilers. Fire tube and water tube boilers are examples of objects thus covered.

Insured objects are described in the schedule by designation of boiler number, type, class, size, fuel, and location. The schedule also indicates whether or not coverage is provided for furnace explosion.

ACCIDENTS COVERED.—Accidents, as respects this schedule, mean the sudden and accidental tearing asunder of objects or their parts by steam or water pressure. The sudden and acci-

dental inward crushing of a cylindrical furnace or flue is likewise covered.

If furnace explosion is included, coverage is provided for any sudden and accidental explosion within the furnace, tubes, flues, or other passages used for conducting gases from the furnace to the chimney. The company is not liable, however, unless the object is operated with the kind of fuel specified in the schedule.

PRESSURE LIMITATION.—The company is not liable for any loss from an object used to generate steam and for which the word “low” is inserted in the schedule, while any safety valve on the object is set to allow a pressure in excess of 15 pounds per square inch.

Cast Iron Boilers.—The schedule for cast iron boilers specifies the designating number, manufacturer, size and trade number, fuel, and location of each insured cast iron boiler. This schedule also shows whether or not coverage is provided for furnace explosion and cracking.

When cracking coverage is provided, accidents include any sudden and accidental cracking of any part of the object when leakage of steam or water results from the cracking in addition to the accidental tearing asunder of the object or any part thereof caused by pressure of steam or water therein.

If furnace explosion coverage is included, the word accident is defined as above.

Unfired Vessels.—Cookers, steam tables, and tanks are among the various objects to which the unified pressure vessel schedule applies. Columns are provided in the schedule to indicate the designating number, location, type, size, and contents limit for each object covered.

Any insured object used for storage of gas or liquid and periodically filled, moved, emptied, and refilled in the course of its normal service is considered at all times connected and ready for use within the terms of the policy.

ACCIDENTS COVERED.—In the unfired vessels schedule, accident means sudden and actual tearing asunder of any part of or

of the entire object because of pressure by steam, air, gas, water, or other liquid contained therein. Inward crushing of an object caused by vacuums is likewise covered. The schedule also provides coverage for sudden and accidental cracking of any cast iron part of the object, if this accident permits a leakage of steam, air, gas, water, or other liquid. Leakage at valves, fittings, joints or connections, however, does not constitute an insured accident.

CONTENT COVERAGE.—The company is not liable for loss of contents of a damaged object unless specifically provided for by insertion of an amount in a column of the schedule headed "Contents Limit." In event of loss of contents the company's liability does not exceed this amount, which in turn is part of the specified limit for the accident.

Replaceable Service Tanks.—As respects any replaceable service tanks, the insured object means any cylindrical tank which does not exceed two feet in diameter and which, though located temporarily on the premises, is not owned by the insured. A further condition for coverage is that the tank must contain the liquid or gas specified in the schedule.

The schedule states the maximum number of objects and their contents. An accident is here defined as the sudden and accidental tearing asunder of any part of or of the entire object caused by pressure of the contents. Each object mentioned in the schedule is throughout the policy period considered as connected and ready for use within the terms of the policy.

LIMIT OF LIABILITIES.—The company's liability does not exceed that portion of any insured loss which the specified maximum number of objects bears to the actual number of such objects on the premises at the time of the accident.

Residence Boilers and Vessels.—Unlike other schedules, the schedule covering residence boilers and vessels does not specifically designate insured objects, but applies to all objects in a single residence or garage. These objects may be any of the following types:

1. Steam heating boilers
2. Hot water heating boilers

3. Hot water supply boilers
4. Storage water heaters
5. Electrical water heaters
6. Coil water heaters, water fronts, and water backs
7. Incinerators and garbage burners used for hot water supply service
8. Economizers used for heating water
9. Air tanks
10. Water supply tanks
11. Expansion tanks used in connection with hot water heating systems

ACCIDENTS COVERED.—The residence boiler and vessel schedule defines covered accidents similar to the preceding schedules. These definitions may be summarized as follows:

1. Sudden and accidental tearing asunder of insured objects, resulting from the pressure of steam, air or water or by vacuum.
2. Sudden and accidental cracking of any cast iron part of insured objects, when the accident causes a leakage of steam, air or water. Leakage at valves, fittings, joints, or connections, however, is excluded.

As in previous schedules, furnace explosion coverage may be provided, extending the above list of definitions to include the following:

Sudden and accidental explosion of gas within the object's furnace or within the tubes, flues, or other passages used for conducting gases from the furnace to the chimney. This same definition applies to hot air furnaces and stoves within the residence.

Premium Charges for Boiler Insurance.—Premium charges for boiler insurance are based on the following factors:

1. Object charge. Hazards vary with the size and value of insured objects, which are accordingly classified on the basis of past experience. Rates are assigned for these classifications on the basis of the estimated risk involved. Sufficient insurance should be provided to cover the value of both the insured ob-

ject and other property which may be damaged in the same accident. The amount of insurance should also cover liability for bodily injuries and deaths resulting from the accident.

2. Basic charge. This is a flat charge which is made regardless of the number of objects insured.

3. Location charge. A charge is made for each location and may be said to represent the territorial charge.

4. Coverage. Rates naturally vary with extent of coverage, that is, the limit per accident and kinds of coverage granted.

5. Additional coverage. Additional charges are made for use and occupancy insurance and other additional coverages. These coverages will be discussed subsequently.

Machinery Insurance

Purpose.—Few people appreciate the multiplicity and importance of power plant insurance. Aside from the total need for boiler insurance as already discussed, the social and economic needs for machinery insurance can hardly be overemphasized. Hardly a locality in the United States is without an engine and the development of the use in electrical machinery has been phenomenal.

Schedules.—The machinery policy as a basic insuring agreement is similar to the boiler policy. Various schedules are attached to cover specific objects, as illustrated by the following examples: (1) engines, reciprocating pumps, and compressors (except internal combustion types); (2) electric motors.

Engines, Reciprocating Pumps and Compressors (except internal combustion type).—This schedule covers steam engines and reciprocating pumps and compressors for air and their gases. When internal combustion cylinders form an integral part of the insured objects, the internal combustion type schedule must be used.

For full identification of insured objects, the schedule provides columns for designating number, type, manufacturer, and number of cylinders of the machine and the size of its cylinders.

ACCIDENTS COVERED.—Accidental breaking, burning out, or rupturing of the object is covered, provided the accident imme-

diately prevents continued operation or so impairs the function of the object as to necessitate immediate repair or replacement thereof.

The schedule does not cover the breaking, burning or rupturing of any gasket or gland packing. Depletion of material in any part of the insured object caused by pitting, corrosion or wear is similarly excluded.

Electric Motors.—This schedule covers electric motors. For identification of insured objects, the schedule provides columns for designating numbers, manufacturer, current used, motor use, voltage capacity and motor control equipment.

ACCIDENTS COVERED.—Electric motors are insured against accident, which is defined to be a sudden and accidental breaking, deforming, burning out, or rupturing of the object or any part thereof which manifests itself at the time of its occurrence by immediately preventing continued operation or by immediately impairing the functions of the object and which necessitates repair or replacement before its operation can be resumed or its functions restored. The burning out of a fuse does not constitute an insurable accident.

This schedule makes an important change in the exclusions stated in the basic policy form. As amended by the schedule, the exclusion applies to loss from fire outside the object or from the use of water or other means to extinguish fire. Inasmuch as the basic policy excludes losses by fire or from accidents caused by fire, the schedule narrows the exclusion to the hazard of fire outside the motor.

Furthermore, the company is not liable for losses occurring while the object is undergoing experimental tests, being repaired or dried out. An exclusion likewise applies to the renewal or replacement of any fuse or brush replaced or renewed.

Premium Charges.—The premium charge for a machinery policy depends upon the following factors:

1. Insured object.
2. An insurance charge for each location.
3. Extent of coverage, similar to boiler insurance.
4. Additional coverage, similar to boiler insurance.

Additional Coverages.—The basic steam boiler policy and the machinery policy cover direct damages. A plant, however, may be closed because of accident causing loss of profits and continuing expense. In addition, the insured may desire payment for each hour an object cannot be used on account of accident. An insured may also suffer loss due to interruption of power from a public utility plant. To meet various contingencies coverage is provided for the following hazards:

1. Use and occupancy insurance
2. Consequential damage insurance
3. Outage insurance
4. Power interruption insurance

1. Use and Occupancy Insurance.—This coverage provides a specified indemnity to be paid for each day during which the business of a specifically described plant is prevented because of an accident to an object, whether the object is located in the particular plant or elsewhere.

The insured selects a fixed amount of daily indemnity to cover his anticipated losses such as loss of profits, overhead expenses and maintenance expenses, resulting from prevention or reduction of business on the premises. The total liability for any one accident is also subject to a total limit regardless of the number of days of suspension.

Use and occupancy cannot be written on objects where the prevention of the functions of the object may result merely in increased operating expenses or intangible losses, not directly reflected by prevention or reduction of business. Coverage under such circumstances should be obtained by outage insurance as explained in this chapter.

When a plant derives all or a part of its power, light, heat, steam, or refrigeration from objects located outside of the insured's premises, except where such outside objects form a part of a public utility system, use and occupancy insurance may be written to cover the suspension of operation in the plant resulting from an accident to any specified object, supplying power, light, heat, steam, or refrigeration.

If loss of use is due to an accident to outside objects which

form a part of a public utility system, power interruption insurance must be used as explained subsequently.

AMOUNT OF INDEMNITY.—The use and occupancy form provides for a specific indemnity for each day during which business is totally prevented on the premises. The interruption of business operation must be the result of an accident as described by the policy to an object covered by any of the schedules of the policy. If an object is either not covered or is specifically excluded in the policy schedules, the company is not liable for the resulting loss.

The full daily indemnity is payable for total prevention of business during the entire day. A portion of the daily indemnity will be paid for partial prevention of operations resulting in business for the day less than current business. The company's liability for partial prevention is that portion of the daily indemnity for total prevention which the reduction in business bears to current business. In these calculations, a day constitutes a period of 24 consecutive hours from midnight and current business is an arithmetical mean of total business during three days preceding the accident. The insured may select the three days which just precede the date of the accident or which fall on any calendar week in any eight calendar weeks, in each of which business has been done, preceding the accident.

BUSINESS COVERED.—The term "business" in use and occupancy forms is variously defined for different types of business activity. When the premises are used for manufacturing purposes, the interruption of business is measured by the production on the premises of the finished product ready for packing, shipping or sale.

Mercantile business, however, means gross sales on the premises. When the premises are used for rental purposes, the rents collectible from the property are the measure of business. Finally, gross income is the measure of business for property used for professional purposes.

LIABILITY DATE.—The company's liability arises upon the arrival of a notice of the insured accident. Notice may be communicated by telegram or letter either to the home office or to

any other place designated in the endorsement. Whichever place the notice first reaches determines the commencement of the company's liability. If the form states that liability commences at the time of the accident, the company is not liable for payment during any period before the twenty-fourth hour prior to the arrival of notice. If the commencement of liability is stated as of a designated midnight, the company is not liable for prevention of business during any period prior to that midnight after receipt of notice of the accident by the company.

EXCLUSIONS.—Prevention of business is not covered by the use and occupancy endorsement if:

1. Caused by fire or use of water to extinguish a fire.
2. Caused by fire outside the object after an accident.
3. The business would not or could not have been carried on even if the accident had not occurred.
4. The insured manifests lack of diligence and dispatch in resuming business.

DUTIES OF INSURED.—At the request and expense of the company, the insured must use surplus machinery, duplicate parts and similar stock which he owns in order to resume business. The company may also require the use, at its own expense, of finished products owned and controlled or purchased elsewhere by the insured as a substitute for work prevented. Expenses thus incurred either by the company or by the insured at the written direction of the company are considered a part of rather than an addition to the limit of loss.

MODIFICATIONS.—Use and occupancy insurance may be modified by the: (1) varying limits and (2) suspended liability endorsements.

The varying limits endorsement provides for varying limits of indemnity for different periods of the policy year instead of a fixed daily indemnity.

The suspended liability endorsements provide that liability can be suspended as follows: (1) The use and occupancy endorsement may be amended so as to suspend liability for payments of daily indemnity during certain specified periods, irrespective of the date on which the accident occurs. (2) An en-

dorsement for part-time operation or suspension may be issued, suspending use and occupancy insurance with respect to accidents to all objects covered, occurring during certain specified periods.

2. Consequential Damage Insurance.—Consequential damage insurance covers losses due to spoilage of the property of the insured and his liability for spoilage of property of others. The cause of loss must be lack of power, light, heat, steam, or refrigeration at a specifically designated plant resulting from an accident to the insured object whether or not located in that plant.

Consequential damage insurance can also be used to cover: (1) loss of admission and tuition fees and similar losses which do not vary with the length of the suspension period; (2) increase in consumer's bills for current purchases from a public utility by reason of an increase in the so-called demand charge. It must be demonstrated that the excess demand for current is the result of an accident to a designated boiler or machine used by the consumer to generate steam or power.

This insurance is also available to cover suspension of operation of a plant deriving all or part of its power, light, heat, steam, or refrigeration from objects outside the insured's premises by reason of accidents to these specified objects. This coverage does not include loss caused by accidents to objects forming part of public utility systems.

If spoilage is due to an accident to outside objects forming a part of a public utility system, coverage is obtained by the power interruption insurance endorsement.

CONSEQUENTIAL DAMAGE ENDORSEMENT.—The consequential damage endorsement is used to cover spoilage resulting from an accident as described by the policy to insured objects whether the object is in the insured's plant or outside the plant. The company agrees to cover loss of specified property of the insured as well as his liability for loss due to spoilage of designated property of others.

The company's total liability for any one accident is subject to a stated limit of liability, irrespective of the designated limit

per accident in the policy. This liability is further limited to actual cash value of the property at the time of the accident with adequate allowance for depreciation.

DUTIES OF INSURED.—The company may require the insured to take means to prevent and reduce losses, including the disposition of salvaged property. Expenses so incurred by the insured at the written direction of the company and by the company itself are considered as part of the limit of liability rather than as an addition thereto.

The company itself may dispose of salvaged property and act in any other way which in its opinion will minimize loss.

EXCLUSIONS.—Losses resulting from accidents caused by fire or by efforts to extinguish fire are not covered by the consequential damage endorsement. Losses which would have been prevented by reasonable diligence on the part of the insured are likewise excluded.

MODIFICATIONS.—The consequential damage endorsement may be amended by a varying limit endorsement and a suspended liability endorsement.

3. Outage Insurance.—Outage insurance provides a specific indemnity for each hour during which the functions of an insured object are prevented by an accident to the object as described by the policy. It should be noted that the purpose of outage insurance is to provide reimbursement for increased operating expense and intangible losses which do not necessarily involve any actual reduction of business. For the latter hazard, use and occupancy insurance should be used. Similarly, power interruption insurance rather than outage insurance is provided for interruption of service resulting from accidents to outside objects forming a part of a public utility system. Risks covered by outage insurance include schools, office and apartment buildings, contracting risks, irrigation plants, dredges, drawbridges, and conveying operations.

Outage insurance may also be written to cover against the prevented functioning of specific objects located outside the insured's premises, except for objects forming part of a public

utility system, when the use of his plant depends wholly or in part on the operation of these objects.

COMPLETE AND PARTIAL OUTAGE.—Complete outage means a period which commences at the time when the functions of the object are entirely suspended by accident and ends when these functions have been or could have been restored wholly or in part, even though as restored the object could not be used for other reasons.

Partial outage denotes the period beginning at the time the functions of the object are partially suspended by accident or following complete outage at the time complete outage is terminated. The period ends and is subject to the same exclusions as complete outage.

The period for complete outage or partial outage does not include any time before the twenty-fourth hour preceding the receipt of notice of the accident by the company. Any time during which equivalent means are substituted as provided in the contract is likewise excluded.

LIMIT OF LIABILITY.—The company agrees to pay fixed hourly indemnity for each hour of complete outage of the insured object. Indemnity for the fraction of an hour is adjusted on a pro-rata basis. In case of partial outage, the indemnity is proportionate to the extent the functions of the object are prevented by the accident.

Liability limits are fixed by the amount specified as the hourly indemnity for the object. A limit is also set for each object beyond which the company's total liability for any one accident cannot be exceeded. These hourly and aggregate limits apply for the particular object irrespective of the limits per hour and per accident which may be designated for other objects.

EXCLUSIONS.—The company is not liable for loss if: (1) the accident was caused by fire or use of water to extinguish the fire, (2) the machine would not or could not have been used if the accident had not occurred.

DUTIES OF THE INSURED.—At the request of the company, the insured may be required to use any spare parts which he

owns. Expenses thus incurred either by the company or by the insured at the written direction of the company are a part of the claim and are considered a part of rather than an addition to the limit of loss.

Endorsements are available for the outage endorsement for varying limits of indemnity and suspended liability.

4. Power Interruption Insurance.—Power interruption insurance provides indemnity against loss arising from the total or partial deprivation of usable service (electric current, steam, water, gas, or refrigeration) furnished by a public utility, caused by an accidental occurrence to the physical equipment of a public service system which immediately prevents, in whole or in part, delivery of usable service to the insured's premises.

The endorsement provides for hourly indemnity for suspension of operations and property loss because of spoilage. The coverage is, therefore, an outage coverage and a consequential damage coverage.

Loss of admission fees, tuition fees, or other similar loss which does not vary with the length of a period of deprivation may be treated as "property" loss under the meaning of these rules. Property loss from spoilage may be covered from the time of accident or after the lapse of a definite waiting period.

PERIOD OF DEPRIVATION.—This term means those hours and fractions of hours from the time an accident occurs until service is wholly restored at the premises. Deprivation may be total or partial.

Operating hours include those hours during which the insured would or could have used the service, had it been available. The term "day" means a period of 24 consecutive hours from midnight.

LIMIT OF LIABILITY.—

1. *Suspension Coverage.* For total deprivation, the company will pay the insured a stipulated amount per operating hour of total deprivation in that part of a period of deprivation exceeding five minutes. Fractions of an hour are compensated for on a pro-rata basis. When deprivation is partial, the com-

pany's liability is in direct proportion to the extent of deprivation.

Irrespective of the degree of deprivation, payments are subject in all cases to a stated limit per day and to a specified limit per accident for this coverage. The latter is equal to the limit per day multiplied by the number of days for which the insured desires protection.

2. *Spoilage Coverage.* The company will pay for the insured's property loss resulting from spoilage of specified property of the insured and if any indemnity remains the company will pay such amounts as the insured is obligated to pay by reason of his liability for loss of specified property of others. Payment for spoilage is subject to a specified limit per accident and may be written subject to a waiting period before the company's liability commences.

As respects any specified property of the insured which is damaged or destroyed, the company's liability is limited by the deduction for depreciation however caused.

EXCLUSIONS.—The company is not liable for losses under the following conditions:

1. Interruption of service caused directly or indirectly by riot, strike, or civil commotion.
2. Failure of the insured to comply with the terms or conditions of his contract for the supplying of service.
3. Interruption of service during the first five minutes of any period of deprivation or at any time before the public utility has notice of the interruption. This exclusion is limited to suspension of operations coverage.
4. Failure of the insured to exercise reasonable diligence to protect the insured property from damage. This exclusion applies to the consequential damage coverage.

DUTIES OF INSURED.—The company may take any means designed to prevent or reduce losses, including the disposition of salvaged property. As in other forms, the insured may be required to take similar actions, but any expense so undergone at the direction of the company constitutes a part of the limit per accident.

The company is not liable for deprivation losses unless the insured furnishes written notice to the company or its agent as soon as practicable. He must also notify the public utility company so that prompt steps may be taken to resume service.

The insured must not voluntarily assume any liability or incur any expense at his own cost. He is likewise prohibited from interfering in any negotiation for settlement unless the company has consented in writing. Payment, however, of any judicial judgment or claim for any indemnity which the company would prove liable under the policy, does not bar the insured's right of action against the company therefor.

The power interruption endorsement can be written with varying limits of indemnity and suspended liability endorsements.

CHAPTER 19

BURGLARY, THEFT, LARCENY, AND ROBBERY INSURANCE

Definitions.—The related terms of burglary, larceny, and robbery are variously defined by the different state statutes. Underwriters have secured uniformity in meaning for insurance purpose by specifically defining these offenses in policies issued.

Burglary loss as defined in burglary policies is that occasioned by attempting or making felonious entry into the insured's premise. Visible evidence of actual force or violence by use of tools or explosives must appear at the point of entry. Losses caused by sneak thieves, servants, and others who have access to the insured premises are not deemed to constitute burglary losses.

Theft and larceny are synonymous in insurance terminology signifying the unlawful or felonious taking of property owned by others.

As defined in the messenger robbery policy, robbery is a felonious and forcible taking of property under any of the following circumstances:

1. Inflicting violence upon a person charged with the actual care and custody of the property.
2. Placing the custodian in fear of violence.
3. Committing any other felonious acts in the presence and with the knowledge of these persons excluding acts by officers or employees of the insured.
4. Killing the custodian or rendering him unconscious by injuries inflicted maliciously or accidentally.

Policy Forms.—The following are some of the forms of burglary, robbery, theft, and larceny insurance policies that are issued:

1. Residence burglary, robbery, theft, and larceny policy

essentially covers loss of personal and household property by burglary, robbery, theft, and larceny from within the premises occupied by the insured.

2. Personal hold-up policy covers the loss resulting from felonious and forcible taking of property from the person of the insured.

3. Mercantile open-stock burglary policy covers loss of merchandise by burglary from the insured's premises.

4. Mercantile safe burglary policy essentially covers loss by burglary through the forcible entry into safes or vaults by burglars.

5. Bank burglary and robbery policy essentially covers loss by burglary or robbery of money and securities from banks.

6. Mercantile robbery policies are represented by the paymaster, messenger, office and store robbery forms. The paymaster policy protects the insured from robbery loss of payroll while the funds are carried by the custodian outside the insured's premises or, while within his care, upon the premises. The messenger robbery policy covers loss of moneys, securities, and merchandise due to robbery outside the premises. The office or store robbery policies cover against the hold-up hazard within the premises during business hours. These coverages may be combined under a single messenger, paymaster, and office and store robbery policy.

7. Storekeepers' burglary and robbery policy provides specific coverage against the following hazards for stores: (a) robbery within the premises, (b) robbery outside the premises, (c) kidnapping, (d) safe burglary, and (e) burglary within the premises.

8. Office burglary and robbery policy provides various coverages for offices somewhat similar to that provided for stores by the storekeepers' burglary and robbery policy.

9. All risk policies.

Residence Burglary, Robbery, Theft, and Larceny Insurance.—Residence policies are available in three standard forms: (1) divided coverage form; (2) 50% blanket form; (3) 100% blanket form.

INSURING CLAUSE.—These forms provide coverage of the following hazards:

1. Loss by burglary, robbery, theft, or larceny of any of the property insured from within the premises occupied by the insured committed by a guest, domestic servant, or other employee of the insured, or by any person not a permanent member of his household who does not pay board or rent or is not a relative residing with the insured.
2. Loss by burglary, robbery, theft, or larceny of the insured's property from within that part of any vault leased or used by the insured and located in any bank or trust or safe deposit company situated in the United States or Canada.
3. Damage to the insured's property and premises caused by actual or attempted burglary, robbery, theft, or larceny. Fire loss is excluded, however, because this hazard is covered by the fire policy.

DIVIDED COVERAGE FORM.—Experience indicates that the possibility of loss of valuable articles such as jewelry, silverware, and furs is greater than that in connection with other household goods and personal property. This fact is taken into consideration in the divided coverage form. Under this form, the property of the insured is divided into three groups. The insured must specify the amount of insurance he desires on each group. The three main property classifications are as follows:

Section A. Jewelry, watches, necklaces, bracelets, gems, precious and semi-precious stones, articles of gold, platinum, and sterling silver, furs, and articles containing fur which represents their principal value.

Section B. All other household goods and personal property of every description, and plumbing, heating, refrigerating, electric, gas, and water fixtures and equipment. There is a limit, however, of \$100 on stamp and coin collections and \$50 on money and securities.

Section C. Specific insurance. If the insured desires he may obtain specific insurance on any article at lower rates provided a description of the article and its value are stated in the policy.

A reduction in premium is allowed if the insured agrees to carry insurance amounting to 80% of the value of such articles as jewelry, sterling silver and furs, which are described under Section A of the divided coverage form. An 80% coinsurance clause is attached to the policy when the discount is allowed the insured.

50% LIMITED BLANKET FORM.—This policy form is similar to the divided coverage form except in two respects. First, the insured is not required to state specifically how much insurance he desires under Section A and Section B. Secondly, the amount that may be recovered for losses on articles described by Section A above is limited to 50% of the total amount of insurance carried under the policy. To illustrate the effect of this limitation, assume that a policy for \$3,000 is purchased by a man who owns \$3,000 worth of jewelry, sterling silver, and furs, and also \$4,000 worth of household effects. In the event that jewelry valued at \$2,000 is stolen from the insured, the maximum amount that he can recover on his jewelry, sterling silverware, and furs, would be \$1,500. If, however, \$3,000 worth of household effects were stolen, the entire amount would be paid by the insurance company. The limit for stamp and coin collections and money and securities is similar to the divided coverage form.

100% BLANKET FORM.—This form provides full coverage to the extent of the insurance carried, in the event of the loss of all the personal property in the possession of the insured. Since there is no special limitation on jewelry, sterling silverware, and similar articles, the rate charged for this form of coverage is higher than the rates for the other forms. The limit for stamp and coin collections and money and securities is similar to the divided coverage form.

WHOSE PROPERTY COVERED.—From the standpoint of ownership, the residence policy contains the following provisions regarding amount of coverage: (1) the insured, to the full amount of insurance; (2) any permanent member of his household who pays no rent or board, to the full amount of insurance; (3) any relative permanently residing with the insured,

to the full amount of the insurance; and (4) to the extent of 25% of insurance for the property of all others, including the insured's guests and employees.

LOCATION OF PROPERTY COVERED.—The residence policy, covers losses occurring in the insured's premises, which means the interior of the entire building occupied solely by the insured. When two families occupy a building, the insured's premises signify only that portion of the interior occupied by the insured. If more than two families occupy the building, the insured's premises mean the interior of only his apartment of rooms, exclusive of entrances, porches, halls, stairways, elevators and dumbwaiters which the insured does not use exclusively.

In addition to the interior of the house, building, apartment, or rooms occupied by the insured, the following locations are covered by the residence policy:

1. If the insured lives in a private or two family residence, \$100 of the insurance applies to property, excluding money and securities, on porches and entrances.

2. If more than two families occupy a building, \$100 of the insurance applies to property, excluding money and securities, contained in basements, laundries and rooms in or attached to the building provided for common use of the dwellers or while contained on porches and in storerooms provided for the exclusive use of the insured.

3. Private garages, stables, and outbuildings located in or adjacent to the insured's dwelling are covered up to \$100 of the insurance. This insurance, however, does not apply to money, securities, motorcycles, automobiles, and automobile equipment or animals or birds.

LETTING AND SUBLETTING.—Residence coverage applies when the premises are rented or subletted to a tenant for residential purposes, but not for use as a boarding or lodging house or for any business or professional purposes. No coverage is provided in the rented premises, however, for money, securities, watches, necklaces, bracelets, gems, and precious and semi-precious stones. Articles made wholly or partly of gold or

platinum are similarly excluded. Furthermore, the company is not liable for losses on property owned, or losses caused by the tenant and members of his household.

Knowledge of the tenant and members of his household is considered knowledge of the insured. Hence, the company is not liable for losses of which tenants possess knowledge unless immediate notice is given to the company.

EXCLUSIONS.—The company is not liable for losses under the following circumstances:

1. If the premises have been unoccupied for a total period of six months (called permissible vacancy) in any one year unless extended by endorsement.
2. Unless immediate notice of loss is given upon discovery or not later than 15 days after termination of the permissible vacancy.
3. Damage to articles or samples carried for sale or delivery after sale.
4. If the premises are used wholly or in part as a boarding or lodging house or for any business or professional purposes, unless the policy expressly covers these uses.

Personal Hold-up Insurance.—Personal hold-up insurance protects the insured against the loss of personal property which he may suffer if held up and robbed while away from his home. This coverage may be included with the residence burglary, robbery, theft, and larceny policy or provided separately. Robbery as here used has similar significance as defined previously. Hence, sly theft such as the picking of pockets is excluded.

The policy covers the insured and any permanent member of his household who pays no board or rent and any relative of the insured who permanently resides with him. Servants and other employees, however, are excluded from coverage. Territorially coverage applies anywhere in the United States or Canada.

Personal hold-up insurance covers the following property of the insured and members of his household and relatives as limited in the preceding paragraph: (1) jewelry, watches, sil-

verware, clothing, and other personal effects, (2) money and securities not exceeding \$50.

Premium Charges for Residence Insurance.—The premiums for residence insurance depend upon the following essential factors:

1. The insurance companies have recognized that losses vary throughout the country. For accurate measurement of the hazard, the United States has been divided into territories based upon loss statistics.

2. A reduction in rate is granted if the insured agrees to limit the company's liability to loss by burglary and to exclude losses resulting from larceny, theft and robbery.

3. Rates are based on \$1,000 of insurance. The rates for additional thousands of dollars of insurance are decreased as the amount of the policy is increased to \$5,000, after which a flat rate per thousand is charged for all additional thousands.

4. Lower rates are charged for private residences and two-family houses than for apartments, flats, hotel rooms, and penthouses.

5. A discount is granted on residence insurance policies for either a central station or a local burglar alarm system installed and maintained on the premises. The alarm system must protect all accessible openings in the premises. In the case of a local alarm system, the gong must be located on the outside of the premises.

6. By payment of additional premiums, additional insurance may be provided for the following property beyond the limits specified in the standard policy: (a) goods in basements, laundries, storerooms, entrances, and porches in excess of \$100; (b) goods in private garages, stables, and outbuildings in excess of \$100; (c) money and securities in excess of \$50; (d) stamp and coin collections in excess of \$100.

7. An additional premium is required to increase the coverage of the property of guests, servants, employees, and others than the named insured and his household. The effect is to increase the liability of the company beyond the 25% limit stated in the standard policy.

8. An additional premium is charged for each month that the residence is unoccupied over six months in any one policy year. No charge, however, is made for policies covering hotel rooms or premises protected with a central station burglar alarm system during the entire period of vacancy.

9. If part of the premises is used for business or professional purposes, a higher rate is charged for burglary, robbery, larceny and theft insurance due to the consequent increase in hazard. In the case of dentists, however, coverage on precious metals is excluded unless specifically provided for by payment of an additional premium. Since the residence policy does not cover stock-in-trade, coverage of stock-in-trade must be provided in a mercantile open-stock policy and at mercantile open-stock rates.

Theft Outside Premises Endorsement.—The residence policy provides coverage limited to the insured's residence. However, coverage outside the premises can be obtained by the Theft Outside Premises Endorsement. This endorsement covers all loss and damage (except by fire) occasioned by burglary, robbery, theft, larceny, including vandalism or malicious mischief, of personal property owned or used by the insured or any permanent member of his household, except a person not related to the insured who pays board or rent to the insured, occurring outside the premises but within the United States in North America or the Dominion of Canada. The endorsement also includes property owned by domestic employees only while accompanying the insured.

Under this endorsement the property of the insured is divided into two sections. Section 1 covers personal property of every description subject to a limitation on money and securities. If the insurance under the endorsement is for less than \$1,000, then the amount of insurance on money and securities is limited to \$25. Otherwise, the amount of coverage is \$50 unless further increased on payment of an additional premium. The company is liable under this section provided the amount of each loss exceeds \$10, and then only for the excess thereof. However, this section does not apply to any articles which are specifically insured in whole or in part by Section 2.

Section 2 provides coverage for each article insured subject to a specific amount of insurance for each article.

The term "money and securities" includes checks, drafts, money orders, letters of credit, passports, documents and railroad, steamship, admission or other tickets.

EXCLUSIONS.—The company is not liable for loss—

1. Consisting of articles carried or held as samples, or for sale, or for delivery after sale, or any property pertaining to any business, profession or occupation of any person whose property is covered by the endorsement.
2. From within (a) that part of any building which is occupied by the insured as a permanent residence, (b) that part of any building which is used as a seasonal residence unless actually occupied by a person whose property is covered by the endorsement.
3. From within fraternity or sorority houses or dormitories, or on the premises of schools or colleges, or an exhibition.
4. Consisting of automobiles, motorcycles, aircraft, boats, conveyances (other than bicycles), their equipment, furnishings and appurtenances, animals or birds.
5. Consisting of jewelry, watches, necklaces, bracelets, gems, precious and semi-precious stones, articles of gold, platinum and sterling silver, furs and articles containing fur which represents their principal value, in excess of \$250 unless specifically insured by Section 2 of endorsement.
6. When left unattended (except when in the custody of a common carrier or in a private garage) in an automobile or automobile trailer, unless abstracted from within a fully enclosed body the doors and windows of which have been closed and securely locked, or from within a closed and locked compartment, by any person making entry therein by force and violence of which there is visible evidence.

The company's liability under item 6 is limited to 10% of the amount of insurance under Section 1 of the endorsement subject to a maximum of \$250.

OTHER INSURANCE.—If there is at the time any other valid and collectible insurance carried by the insured or other interested parties, the coverage serves as excess insurance.

Mercantile Open-Stock Burglary Insurance.—An open-stock policy covers a merchant against loss or damage (except by fire) caused by burglary to his merchandise, furniture, fixtures, and equipment and to the premises if owned by the insured or if he is liable for the damage. Burglary as here defined means the taking of property from the insured's premises after breaking into the premises when not open for business. There must be visible marks of the force and violence made at the place of entry by tools, explosives, electricity or chemicals.

MERCHANDISE AND PREMISES COVERED.—The policy covers all merchandise in the designated premises, owned by the insured or held by him as bailee or in trust or on commission or sold but not removed from the premises and merchandise for which the owner is liable as the result of such loss of damages.

Premises as here defined mean the interior of the building designated by the policy and occupied by the insured solely by the insured in the conduct of his business. Show cases and show windows which do not open directly into the interior of the premises are not included in this coverage. Public entrances, halls and stairways are similarly excluded.

EXCLUSIONS.—The mercantile open-stock burglary policy provides no coverage for losses under the following circumstances:

1. When the burglary is effected or attempted by the insured, an associate in interest, or a servant or employee either as principal or accessory.
2. When the insured fails to keep books of accounts in such a manner as to permit accurate determination of losses.
3. When contributed to by fire or occurring during a fire in the building in which the premises are located.
4. When contributed to by reason of any change in the conditions of the risk.
5. Loss of furs and articles in which fur represents the principal value, feloniously abstracted from within show windows by breaking the glass from outside the premises.

6. While the protection or service promised by the insured is not maintained.
7. Damage to plate glass and its lettering or ornamentation.

COINSURANCE CLAUSE.—The policy contains a provision subjecting the risk to coinsurance which varies in percentages according to the territory in which the risk is located. For all classifications, coinsurance limits in fixed amounts are set. To illustrate the principle, assume the following example: A manufacturer of boots and shoes in New York County carries \$6,000 insurance. He has stock worth \$10,000 or more, and a \$2,000 loss occurs. The policy provides that a manufacturer of boots and shoes in New York County is subject to the 80% clause, unless at least \$3,000 insurance is carried. Since the manufacturer carries \$6,000, he is paid in full. As a further illustration, take the case of a New York dealer in silk goods, who has stock valued at \$60,000 and is carrying \$5,000 of insurance when a \$4,000 loss occurs. In this industry the 80% clause operates similarly. Exactly 80% of \$60,000 would be \$48,000; but the rules provide that a \$10,000 limit avoids the 80% coinsurance clause. This manufacturer, however, carries \$5,000 insurance instead of \$10,000. For his \$4,000 loss, therefore, he is paid one-half, or \$2,000. If his stock of silk were worth, instead, \$8,000 he would be required to carry 80% of \$8,000—that is, \$6,400 to avoid coinsurance. If he carried \$4,000, and a loss occurred, he would be paid a percentage corresponding to the proportion of \$4,000 to \$6,400.

Table 20 gives further illustrations of policies issued to dealers in silk goods if the 80% coinsurance limit is \$10,000.

TABLE 20. POLICIES ISSUED TO DEALERS IN SILK GOODS

Value of Inventory	80% Coinsurance	Limit Required to Avoid Coinsurance	Insurance Carried	Loss	Loss Paid	Loss Suffered by Insured
\$60,000	\$48,000	\$10,000	\$45,000	\$5,000	\$5,000	—
55,000	44,000	10,000	10,000	7,500	7,500	—
15,000	12,000	10,000	7,500	6,000	4,500	\$1,500
9,500	7,600	—	8,000	6,000	6,000	—
5,000	4,000	—	3,000	1,000	750	250

THEFT ENDORSEMENT.—The open-stock burglary insurance policy can be endorsed to include loss or damage (except by fire) by robbery, theft, or larceny, committed by any person or persons, at any time of the day or night while the property is within the insured's premises. Mere disappearance of the property insured is not a loss covered. Any loss or shortage determined by any inventory is not covered unless it can be reasonably shown to have been occasioned by robbery, theft, or larceny, and then there must be deducted from such loss an amount equal to the average shortage revealed in the last five annual physical inventories, increased by the percentage of increase, if any, in the total gross sales for the 12-month period immediately preceding the date of the claim over the average annual gross sales for the said five-year period. The insured must make physical inventory at least once in every 12 months.

Any loss committed by, or in collusion with, an officer of the insured, if a corporation, or a partner of the insured, if a co-partnership, is not covered; and any loss occasioned by, or in collusion with, any other employee or servant of the insured is covered only to the extent that it exceeds the insurance or indemnity of any other policy or fidelity bond.

PREMIUM CHARGES.—The rates for mercantile open-stock burglary insurance depend upon the following factors:

1. Trade groups are used depending upon hazard of stock.
2. Territory in which the risk is located.
3. The amount of insurance. Since a burglary frequently produces a partial loss, the hazard does not increase with increased amount carried. A reduction is made in premium charged per \$1,000, as the amount of insurance increases over \$5,000 and up to \$20,000, based upon units of \$5,000 insurance.
4. Reductions are allowed for protective devices: (a) burglar alarm systems approved by Underwriters' Laboratories; (b) iron protection, in addition to alarm system, approved by National Bureau of Casualty and Surety Underwriters; (c) private watchman inside premises when not open for business.
5. Fur coverage. Upon payment of an additional premium by endorsement of the policy, furs and articles made principally of fur in show windows will be covered against the risk of abstraction by breakage of glass from outside the premises.

The insurance is not subject to the coinsurance clause, nor is the amount of insurance provided by the endorsement counted in any coinsurance computations. A reduction in premium is granted for metal screens, gratings or frames which fully protect the lower part of the show windows and extend at least six feet above the sidewalk.

6. Show cases. Specific coverage with no specified limit on single articles may be provided for outside show cases not opening directly into the interior of the premises against forcible entry into the show cases. Marks of the forced entry must be visible for recovery from the company.

The rate charged corresponds to the classification of merchandise in the show cases rather than to merchandise in the premises. This insurance is not subject to the coinsurance clause and applies 24 hours daily. Furthermore, a reduced premium is allowed under the following circumstances: (a) when metal screens, gratings, or frames completely protect the entire front, side, and end lights of the show case; (b) when the outside show case insurance is limited to apply only when the premises are open for business.

Mercantile Safe Burglary Insurance.—The mercantile safe burglary policy indemnifies the insured for loss of property by burglary from a safe or vault when locked by all combination and time locks therein. The policy requires that entry into the safe or vault must be by the use of force and violence of which there shall be actual marks made by tools, explosives, electricity, gas, or other chemicals. The coverage applies on the premises and elsewhere after removal of the safe by burglars.

PROPERTY INSURED.—The policy covers all loss, except by fire, to the following property of which the insured is owner or for which he is liable as the result of actual or attempted burglary: (1) safe and its contents; (2) furniture, fixtures, and other property in the premises; (3) building containing the premises provided the insured is the owner or is liable for the damage.

EXCLUSIONS.—The company is not liable for loss under the following circumstances:

1. Unless books of accounts are maintained in a manner that permits accurate determination of loss.
2. Loss of securities unless the insured exercises every reasonable precaution to prevent their payment, negotiation, or retirement.
3. Loss of property owned by the United States Government or held by the insured as postmaster.
4. When the burglary is effected or attempted by the insured or associate in interest or watchman or officer or clerical employee as a principal or accessory.
5. When protection or service promised by the insured is not maintained.
6. Damage to plate glass and its lettering and ornamentation.

Coinurance is not considered necessary in mercantile safe burglary insurance as the loss is frequently total whenever a burglary occurs.

PREMIUM CHARGES.—The rates for mercantile safe burglary insurance depend upon the following factors:

1. The construction of the safe or vault. Safes and vaults are classified according to their construction for protection against burglary.

2. Territorial division. The entire country is divided into territories.

3. The property insured. A lower rate is charged if the coverage is limited to: "securities only," "merchandise only," or "securities and merchandise only."

4. Business classification. All classes of business are divided into groups.

5. Discounts. Lower premiums are allowed for reduced hazards under the following circumstances: (a) private watchman service, (b) approved alarm system, (c) approved relocking devices on vaults and safes, (d) tear gas system, (e) if, when the policy covers several safes, chests, or vaults, the liability is limited to a specified percentage on any one safe, chest, or vault.

Bank Burglary and Robbery Insurance.—Bank burglary and robbery insurance provides two distinct coverages which

are usually written in one policy. Under this combined coverage the insurance company is liable for losses occurring under the following circumstances :

1. Burglary of money and securities feloniously abstracted during the day or night from a closed and locked safe or vault by any person who shall have made a forcible entry by use of tools, explosives, chemicals, gas or electricity. This coverage applies on the premises of the insured and elsewhere after removal of the safe by burglars or robbers.

2. Robbery of money and securities from within the premises.

3. Damage of money and securities suffered by the insured or by the owner, to whom the insured is liable, as the result of actual or attempted robbery and damage, except by fire, to the premises and to all safes, vaults, office furniture and fixtures contained in the premises, which the insured owns or for which he is liable. This coverage includes damage resulting from vandalism and malicious mischief.

LIABILITY LIMITS.—Separate amounts of insurance are provided for burglary and robbery and specifically apportioned according to a schedule in the policy.

The insurance applicable to any property not owned by the insured is the excess amount over and above a sum sufficient to pay in full losses sustained by the insured.

In case of a misstatement made in good faith by the insured in the description of any safe, chest, vault, or protective appliance, the insurance is not forfeited. If by reason of such misstatement the hazard is greater than contemplated, the liability of the company is not changed, but the insured must pay such additional premium as may be shown to have been due, at the rate in force at the date of the policy, for the actual hazard. If by reason of misstatement the hazard under the policy is less than that contemplated, the insured is entitled to a refund in premium computed in the same manner. For reasons beyond the control of the insured, he may fail to maintain safety or protection appliances in proper service or to perform other conditions agreed upon. Under such circumstances, excepting combination and time locks, the company's liability continues if

at least one watchman is provided to protect the safe until all appliances have been restored to proper working condition. When the insured willfully or negligently fails to maintain any agreed service or equipment whereby the hazard is greater than contemplated, the liability of the company is limited to that amount of insurance which the paid premium would have purchased at the rates in force at the date of the policy for the actual hazard.

EXCLUSIONS.—Bank burglary and robbery policies do not cover losses under the following circumstances:

1. When the insured fails to exercise due diligence in endeavoring to prevent the negotiation, payment or retirement of lost securities.
2. When the insured has failed to keep adequate records for loss determination.

PREMIUM CHARGES.—The premium for a policy covering burglary and robbery is determined for each form of coverage separately. If desired, a policy may be obtained to cover burglary only or robbery only. The burglary rates are based upon the following considerations:

1. Type and equipment of the safe and vault construction. Safes and vaults are classified according to their resistance to burglary.
2. Territorial division. The country is divided into territories based upon past statistics.
3. Population of the town.
4. Discounts. Reduction in bank burglary rates are allowed under the following circumstances: (a) use of approved re-locking devices on vaults and safes; (b) use of approved tear gas systems; (c) when the policy covers several safes, chests, or vaults, a discount is allowed if the liability on any one safe, chest, or vault is limited to a percentage of the total insurance; (d) contribution to support and maintain a county auxiliary protective unit; (e) use of private watchmen; (f) maintenance of approved alarm systems.

Reduction in bank robbery rates are allowed under the following circumstances: (a) use of guards; (b) use of approved

alarm and protective system; (c) use of approved bandit-resisting enclosures; (d) use of approved tear gas systems; (e) county auxiliary protection unit.

Mercantile Robbery Policies.—Two forms of mercantile robbery policies that are available are: (a) messenger and office robbery policy, and (b) paymaster robbery policy.

Messenger and Office Robbery Policy.—The messenger and office robbery provides the following coverage outside and inside the insured's premises:

1. **MESSENGER ROBBERY INSURANCE.**—Loss of money and securities and other merchandise insured, including the wallet, bag, satchel, or chest in which the property is contained, by actual or attempted robbery from a custodian outside the insured's premises. Coverage is limited to the hours between 7 A.M. and 7 P.M.

2. **OFFICE ROBBERY INSURANCE.**—Loss or damage to property, furniture, and fixtures in the premises by actual or attempted robbery within the insured's premises during the hours between 7 A.M. and 12 P.M. This coverage includes damage to premises which the insured owns or for which he is liable in event of damage. Plate glass and its lettering or ornamentation, however, are excluded. [Similar coverage is available for the store robbery hazard.]

PROPERTY INSURED.—Money as here used includes currency, coin, signed or unsigned bank notes, bullion and uncanceled or precancelled postage stamps in current use.

Securities signify all negotiable and non-negotiable instruments, documents or contracts representing money or other property. Revenue and other stamps in current use, excluding postage stamps, are included in this classification.

Merchandise denotes articles commonly used in the line of business, conducted by the insured.

The property covered may be owned by the insured or held by him as bailee, in trust, on commission, for safekeeping, as collateral for a debt or in any other capacity which renders the insured liable for robbery loss.

Premises are limited to the interior of the premises occupied by the insured in the conduct of his business.

CUSTODIANS AND GUARDS.—The custodian is variously defined as follows :

1. The insured if an individual.
2. A member of the firm when the insured is a copartnership.
3. Any officer of the insured when a corporation.
4. Any person not less than 17 nor more than 65 years of age, who is in the regular employ of the insured and duly authorized to act as paymaster, messenger, manager, cashier, clerk, or salesperson. A watchman, porter, janitor or fireman, however, is not considered a custodian.

Guards are here defined as male persons of not less than 17 years of age accompanying the custodian by the direction of the insured. Drivers of public vehicles, however, are excluded from this classification.

MISSTATEMENT CLAUSE.—If for some unforeseen contingency, the insured is unable to maintain any service specified in the policy, the insurance is not forfeited by any consequent increase of risk. Under the circumstance, however, the company's liability would be limited to the amount of insurance which the premium paid would have purchased at the rates in force when the policy was issued.

EXCLUSIONS.—The messenger and office robbery policy does not cover losses under the following circumstances :

1. When the robbery is not established by direct and affirmative evidence.
2. When the insured has failed to take reasonable precautions to safeguard the property against losses caused by robbery.
3. When the insured has failed to keep books of account in such a manner as to permit accurate loss determination.
4. When the insured has failed to exercise reasonable diligence in preventing the payment, negotiation, or retirement of lost securities.

5. When property in show windows is feloniously abstracted after breaking the glass from outside the premises.

Paymaster Robbery Policy.—Very similar to the coverage of the messenger and office robbery policy is that afforded by the paymaster robbery policy, which is designed to protect primarily property intended solely for payroll purposes, whether inside or outside the premises. This coverage may be summarized as follows:

1. Loss of money and checks intended solely for payroll, including the wallet, bag, satchel, safe, or chest in which such property is contained, by actual or attempted robbery from a custodian during the hours beginning 7 A.M. and ending 7 P.M. in connection with the payroll outside the insured's premises and at any time during the day or night while inside the insured's premises. Damage to furniture, fixtures and other property in the premises resulting from the robbery within the premises is included in the coverage except plate glass and its lettering or ornamentation.

2. Loss of money and securities outside the premises not intended for the payroll to an amount not exceeding 10% of the amount of insurance including the wallet, bag, satchel, safe or chest containing the property.

3. Loss by robbery of money and checks distributed to the insured's employees by the custodian as payment of salary or wages, provided the loss occurs the same day or night these employees were paid and provided further that there is at the same time an actual or attempted robbery of funds from the custodian.

PREMIUM CHARGES.—The premium charges for messenger and paymaster robbery insurance are essentially based upon the following factors:

1. The territory in which the risk is located.
2. The number of guards accompanying the custodian. There is a gradual reduction in the premium charged as the number of guards is increased, subject, however, to a maximum reduction regardless of the number of guards.

3. The hours of coverage. The standard hours are from 7 A.M. to 7 P.M. on messenger and paymaster insurance outside the premises. The time may be extended by an additional premium for each additional hour of coverage, subject to a maximum charge of 25% of the amount of the premium.

4. Discounts. A reduction in premium is granted under the following circumstances: (a) if a private conveyance is used to carry the property, with a further discount if it is an armored car; (b) if a locked messenger safe or chest is used or a steel-lined or wire-meshed wallet or satchel is used properly attached to the custodian or to the conveyance; (c) if the route of the custodian is restricted to the interior of the building containing the premises as described in the policy; (d) if securities only are covered.

The premium charges for office robbery insurance depend upon the following factors:

1. The type of business.

2. The territory in which the risk is located.

3. At least one other employee on duty, in addition to the custodian.

4. Hours of coverage. The standard hours are 7 A.M. to 12 P.M. Additional premium up to 25% is charged for extra hours.

5. Discounts. To promote the reduction of losses, reduced rates are allowed for the following protective devices: (a) employment of guards; (b) hold-up alarm and protection system; (c) push button alarm system; (d) approved bandit-resisting enclosure; (e) approved tear gas system.

Storekeepers' Burglary and Robbery Policy.—The office and store robbery insurance policies already considered cover only the hazard of robbery from the interior of the premises. The storekeepers' burglary and robbery policy was created in response to demand from retail merchants for insurance against the losses due to burglary and hold-up. In this coverage is included protection against robbery both inside and outside the premises, kidnapping, safe burglary, burglary from night depository or residence, open-stock burglary, and property dam-

age for limited amounts due to each cause. This combination type of insurance meets the needs of the many small storekeepers.

Coverage is provided, even though the insured is not owner of the property, if he holds the property as bailee, in trust, in commission or for safekeeping. Protection is also afforded when the insured holds the property as security for debts.

The storekeepers' burglary and robbery policy covers the loss of property under the following circumstances:

1. Robbery from a custodian within or outside of the premises. Custodian is here defined as in the messenger and office robbery policy.

2. In case the custodian, while outside the premises and after the premises are closed for business, is compelled under threat of violence to give admittance to others. The same coverage applies if the insured is forced, while detained elsewhere, to furnish information as to means of entry into the premises. In either case, the loss must occur as a direct result of the act and before premises are opened for the next day's business.

3. Safe burglary similar to the same mercantile safe policy.

4. Felonious abstraction similar to the burglary coverage of the open-stock burglary policy from night depository or residence of money and securities.

5. Felonious abstraction similar to the burglary coverage of the open-stock burglary policy from premises while closed for business of merchandise, furniture, fixtures and equipment. The company's liability as respects cigars, cigarettes, tobacco, fountain pens, and narcotics is limited to \$50 in the aggregate for any one loss of all such merchandise. As used in this policy, merchandise denotes all articles for sale in the premises, but excludes personal effects.

6. Damage, except by fire, to property insured, premises and the furniture and equipment therein contained, caused by attempted or actual burglary or robbery, provided the insured is owner or liable for the damage. It should be noted that damage to glass and the lettering or ornamentation is included in this coverage.

EXCLUSIONS.—The storekeepers' burglary and robbery policy does not cover losses under the following circumstances:

1. Abstraction of property from a show window by a person who breaks the glass from outside the premises while the place is open for business.
2. Contributed to by fire or occurring during a fire in the building in which the premises are located.
3. Property of the United States Government.
4. Loss of property held by the insured as paymaster.
5. Inadequate books and records which do not permit accurate loss determination.

PREMIUM CHARGES.—The premiums for the storekeepers' burglary and robbery policy and office burglary and robbery policy depend on: (1) territory, and (2) amount of insurance.

Office Burglary and Robbery Policy.—The office burglary and robbery policy is intended principally for offices which do not sell merchandise. Losses are covered by this policy for limited amounts similar to the storekeepers' burglary and robbery policy due to the following causes:

1. Robbery from a custodian within and outside the premises.
2. Robbery from a custodian outside the premises.
3. Kidnapping of a custodian.
4. Safe burglary coverage.
5. Burglary loss of office furniture, fixtures, equipment, instruments, supplies, rugs, pictures, paintings, trophies, and draperies.
6. Damage, except by fire, to the property insured and to the premises caused by actual or attempted burglary or robbery, provided the insured is owner or is liable for damages covered by the policy.

EXCLUSIONS.—The office burglary and robbery policy does not cover damage to glass and the lettering or ornamentation. Gold, platinum, other precious metals, jewelry, precious and semi-precious stone, merchandise, articles held in course of trade, samples, and material held for manufacture, cleaning.

repairing, storage, and distribution are similarly excluded. Property of the United States Government and property of the insured as postmaster are also not covered.

All Risk Policies.—The laws of many states permit casualty insurance companies to issue policies covering all types of loss and damage to money, securities, currency, valuable papers and other instruments, except when in the hands of common carriers and in the mails. The same exclusion applies while this property is in the course of any transporter for hire.

The following are some of the policies included in this group:

1. Securities insurance—on premises of insured
2. Securities insurance—for lessees of safe deposit boxes
3. Money and securities destruction
4. Destruction of records
5. Securities insurance for messengers
6. Accounts receivable
7. Warehouseman's liability—for property only
8. Innkeeper's liability
9. Safe depository liability

Securities Insurance Policy—on Premises of Insured.—

This policy covers the insured against loss, destruction of or damage to securities within the insured's premises. In this coverage are included negotiable and non-negotiable instruments, documents and contracts representing money and other property including revenue stamps and other stamps in current use but not including manuscripts, records, accounts or other money.

Securities may be owned by the insured or held by him as bailee, in trust, on commission, for safekeeping, or in any other capacity which would render him liable for losses covered by the policy. Securities held as collateral for debt are included in this coverage. When the insured is other than owner, the company will adjust the loss either with the insured or with the owner. In the latter case, payment of the loss to the owner

constitutes full satisfaction of any claim made by the insured under the policy.

In the event that legal proceedings are taken against the insured for recovery of losses, the insured must immediately notify the company in writing. The company then has the right to conduct and control the defense in the name and on behalf of the insured.

LIMIT OF LIABILITY.—The company's liability does not exceed the actual market value of the lost or damaged securities at the close of the business day next preceding the day on which the loss was discovered. When securities have no quoted market value and cannot otherwise be valued, the value will be determined by agreement or arbitration.

The company may pay the damage in money or, if it elects, replace the lost or damaged securities with securities of the same kind and value. When securities are returned to or otherwise recovered by the insured, he must immediately notify the company.

DUTIES OF INSURED.—Verifiable records of all securities covered must be maintained by the insured in a manner which will permit accurate ascertainment of losses.

OTHER INSURANCE.—When other insurance is carried covering the same loss, the company is liable only for the loss in excess of other insurance. In no event is the policy treated as contributing insurance in computing liability.

EXCLUSIONS.—The company is not liable for losses resulting directly or indirectly from the following circumstances: (1) dishonest or criminal act of the insured, his relative, employee, partner, associate, or representative and in the case of a corporation, of a director or officer; (2) surrender or exchange by the insured or his authorized representative of any security for other property or securities.

Securities Insurance Policy—for Lessees of Safe Deposit Boxes.—The insured is indemnified for the loss, damage, or destruction of securities from within leased safe deposit boxes in any burglar-proof vault in the bank premises specified in the

policy. Coverage is also provided when the securities are temporarily outside a safe deposit box, but within the premises of the bank.

Coverage of securities includes all negotiable and non-negotiable instruments, documents and contracts representing money and other property. The term "burglar-proof" designates vault construction intended to furnish protection against burglars as distinguished from protection against fire. With respect to ownership, valuation and payment of loss, and exclusions, this policy is similar to the policy providing securities insurance coverage on premises of the insured.

DUTIES OF THE INSURED.—The insured must maintain verifiable records for accurate computation of loss during the entire policy period. To check possible losses, he must examine the securities periodically and in any event once every 12 months during the policy period. The results of each examination must be promptly reported to the company. Furthermore, it is the duty of the insured or his legal representative to close and duly lock all doors of the insured safe deposit boxes before leaving the vault.

Money and Securities Destruction Policy.—The money and securities destruction policy indemnifies the insured against destruction to or damage of money and securities within the insured's premises. During the hours when the premises are not open for business, coverage applies only if the property is contained within a safe or vault closed and locked with a combination lock.

As here employed, money includes currency, coin, signed or unsigned bank notes, bank notes, bullion, and uncanceled or precanceled postage stamps in current use. Securities mean all negotiable and non-negotiable instruments or contracts representing either money or other property. Revenue stamps in current use are included in this coverage. Premises are limited in the policy to the interior of that portion of the building at the location designated and occupied solely by the insured in conducting his business. With respect to ownership, other insurance, and valuation and payment of loss, the policy resembles that providing securities insurance on premises of the insured.

EXCLUSIONS.—The company is not liable for the following articles or the following losses: (1) manuscripts, records and accounts; (2) larceny, theft, or disappearance of money and securities; (3) inadequacy of records to determine the loss.

ENDORSEMENT.—The money and securities destruction policy may be endorsed so as to limit liability to loss of money and securities while in a safe or vault closed and locked with a combination lock within the premises.

Destruction of Records Policy.—The insured is indemnified against direct loss of or damage to records. The company is not liable for more than the actual cost, reproducing or replacing property lost or damaged. As to other insurance, it resembles the policy providing securities insurance on premises of insured.

EXCLUSIONS.—This policy does not cover losses due to wear and tear, gradual deterioration, vermin, and inherent vice.

Securities Insurance Policy—For Messengers.—The insured is here indemnified for all loss of or damage to securities while in the care of a custodian outside the insured's premises. With respect to definition of custodian and guardian, the policy is similar to the messenger policy. With respect to ownership, other insurance, and settlement of claims, this policy is similar to securities insurance on premises of insured.

EXCLUSIONS.—The policy does not cover losses under the following circumstances: (1) after the physical surrender of the custody or possession of the securities at destination; (2) caused or contributed by: (a) any dishonest or criminal act of the insured or of any partner of the insured; (b) fluctuation or change in the values of any securities; (c) by reason of any securities being counterfeit, forged, raised, or altered; (d) failure to keep records in order to determine the loss.

Accounts Receivable Policy.—The accounts receivable policy indemnifies the insured for loss occasioned by his inability to collect unpaid accounts receivable (a) if the records are destroyed or damaged while such records are contained in the insured's premises, (b) larceny, theft or disappearance of such records from within the premises, occurring during and contributed to by (1) explosion, earthquake, fire, flood, hurricane,

cyclone, strike, riot or civil commotion; (2) leakage or overflow of water in the building containing the premises.

If, because of imminent danger of destruction, the records are removed to a place of safety, the insurance will apply during or after removal. However, the insured must notify the company in writing of such removal within 10 days thereafter.

DUTIES OF THE INSURED.—The insured is required to keep a trial balance taken from his general ledgers which must be kept in a fireproof safe or vault in the premises or elsewhere. The records of accounts receivable must be kept within fireproof safes or vaults located within the premises at all times when the premises are not regularly open for business, except when such records of accounts receivable are in actual use.

The company must have access during business hours to all records of the insured for the purpose of verifying statements or outstanding accounts submitted by the insured, and of checking on accounts already settled.

The insured must render every possible assistance to facilitate the investigation and adjustment of any claim, exhibiting for that purpose any and all books, records and vouchers bearing in any way upon the claim made, and submitting himself and his partners, and associates in interest, and also, so far as he is able, his employees, to examination and interrogation by any representative of the company, under oath if required. The insured must assist in the collection of accounts receivable for which claim is made.

ADJUSTMENT OF LOSS.—Unless the amount of loss can be established by some other method, the amount is determined thus:

1. Determine the amount of all outstanding accounts receivable at end of the same month in year immediately preceding year of the loss.

2. Calculate the percentage of average increase or decrease in the monthly total of the insured's outstanding accounts for the 12 months ending the last day of the second month immediately preceding the month of loss, as compared with the preceding 12 months' period.

3. The amount determined under subdivision 1 increased or decreased by the percentage calculated under subdivision 2 is the amount payable. From the amount so calculated, there is deducted: (a) the sum of all accounts that can be established after the occurrence of such loss; (b) an amount to allow for probable bad debts which would have been normally uncollectible by the insured in any event.

The company is not liable for any loss until the dates upon

which payments of the accounts receivable are due. After payment of any loss, all amounts recovered by the insured on accounts receivable at the time of such loss belong to the company, up to the total amount of loss paid by the company. All recoveries in excess of such amounts belong to the insured.

Warehouseman's Liability Policy—for Property Only.—

A warehouseman may be liable for losses caused by his failure to exercise the required care in protecting the goods belonging to others. To protect the warehouseman against this contingency, the warehouseman's liability policy is issued to cover the liability of bailee for damage of merchandise in his warehouse, excluding fire and sprinkler leakage losses.

The company will investigate claims and conduct the defense on behalf and in the name of the insured against any suit.

LIABILITY LIMITS.—Under the terms of the warehouseman's liability policy for property only, the company agrees to pay the expense of all claims settled at its option without litigation. In the event of litigation, all costs of legal proceedings defended by the company constitute a liability of the company including interest accruing after entry of judgment until the company has paid, tendered, or deposited in court the part of the judgment for which the company is liable. The company is under no obligation to apply for or furnish appeal bonds, but is liable for premiums. If a bond is required to release attached property of the insured, the company is liable for a portion of the premium which secures payment up to the amount of the company's liability under the policy.

The company places a total limit for a loss of merchandise, which includes personal property that has never been used which is stored by the owners in the warehouse for future sale. Perishable goods, money and securities are not covered. The policy is also subject to a total limit for all losses during the policy period. The policy is deemed excess insurance and contains the same provisions regarding policy period as in the securities insurance coverage on premises of insured.

DEDUCTIBLE CLAUSE.—The policy is subject to a deductible amount for each loss. Hence the company is liable only for the amount in excess of the deductible amount.

EXCLUSIONS.—In addition to the exclusion of fire and sprinkler leakage losses, the policy does not cover damages under the following circumstances: (1) losses occurring outside the warehouse; (2) assumption by the insured of liability under any contract or agreement; (3) property owned, leased, or held as collateral or in trust by the insured.

DUTIES OF INSURED.—The insured must take all reasonable measures to protect, safeguard, and salvage property in his care. The company is entitled to his cooperation in facilitating the investigation and settlement of claims and suits. To this end, he must at the request of the company attend hearings and trials and assist in the conduct of suits and arrangement of settlements. He may be required to obtain evidence and witnesses and to give evidence.

The company reserves, however, the right to settle any claim, suit or other proceeding. When the insured voluntarily assumes any liability, settles any claim, or incurs any expense without the written permission of the company, he does so only at his own expense.

In common with many types of insurance the policy provides that the company has the right at any time to inspect the premises and vaults.

Innkeeper's Liability Policy.—Under common law innkeepers are liable for damages to goods belonging to guests unless the loss is occasioned by negligence of the guests or by acts of God or of enemies. Many statutes, however, have limited the liability of innkeepers to specific amounts for such articles as money, jewels and ornaments. These laws may also require that the articles be placed in the innkeeper's safe and further that a notice be posted in each guest's room stating that the innkeeper is not liable except for goods in the safe. The innkeeper's liability policy is designed to cover his liability to guests.

Under the terms of the policy, the company agrees to pay on behalf of the insured all sums which he is legally obligated to pay by reason of liability subject to the limits of the policy for damage due to injury or distribution or loss of the property

belonging to a guest while property is within the premises or in the possession of the insured.

LIMIT OF LIABILITY.—The limit of liability for all damages for loss of property of any one guest is \$1,000 and the total limit of liability for all damage because of loss of property during the policy period subject to the above limitation for each guest is \$25,000.

In addition to paying for losses, the company will also defend all suits against the insured, but the company has the right to settle any claims or suits, pay premiums or bonds to release attachments to an amount which is not in excess of the applicable limit of liability of the policy, pay all premiums on appeal bonds in any defense but without any obligation to apply for or furnish such bonds or costs taxed against the insured, pay expenses incurred by the company and all interest accruing after entering of judgment until the company has paid or deposited in the court that part of the judgment which does not exceed the limit of the company's liability.

EXCLUSIONS.—The policy does not apply to:

1. Any liability assumed by the insured under any contract or agreement other than the written agreement by the insured with the guest before the occurrence of the loss increasing the limit only of the insured's statutory liability to a total amount not in excess of \$1,000.
2. Any loss not in excess of \$25 which sum must be deducted from the amount of any loss when determined. This exclusion may be eliminated on the payment of an additional premium.
3. Any loss to which the insured has given a release to any person or organization from his or its legal liability.
4. Any loss caused by the spilling, upsetting or leaking of food.
5. Any vehicle, its equipment, its appurtenance, or any property contained therein.
6. Any property in the custody or possession of the insured for laundering or cleaning.
7. Any article carried or held by guests as samples, for sale, or for delivery after sale.

DUTY OF INSURED.—The insured must provide a safe or vault in a convenient place on the premises for the safekeeping of valuables of guests and keep a notice posted as provided by law unless otherwise permitted by the policy. He must also cooperate with the company in connection with any claim and cannot settle any claim without the consent of the company.

SUIT AGAINST THE COMPANY.—No suit can be commenced against the company until the amount of the insured's obligations to pay has finally been determined by court action or written agreement by the insured, the claimant and the company.

OTHER INSURANCE.—When other insurance is carried covering the loss, the company is only liable for loss in excess of other insurance.

Safe Depository Liability Policy.—The loss of contents of safe deposit boxes leased to customers has long been a concern of banks operating safe deposit vaults. Every such bank faces the hazard of sustaining a staggering financial loss from this source. The safe depository liability policy is designed to protect banks against this contingency. Loss may be due to causes such as: (1) dishonesty of employees of the bank, (2) unauthorized persons permitted to have access to contents of boxes, (3) defective legal process, (4) forged power of attorney, (5) burglary or robbery where protection equipment is inadequate.

COVERAGE.—The insured is covered against the loss or destruction of or damage to money, securities, jewelry and all other property contained in safe deposit boxes within the vaults of the insured's premises or within that part of the premises actually occupied by the insured in conducting a safe deposit business. The company must be permitted to inspect the insured's premises and vaults therein at reasonable times.

No action can be taken against the company under the following circumstances: (1) unless the insured has fully complied with the terms of the policy; (2) until the insured's obligation has been finally determined by judgment after actual trial, or by the written agreement of underwriters, insured, and claimant.

The provisions of the safe depository liability policy and the warehouseman's liability policy dealing with investigation of claims, defense and expense of trials and assumption of liability are based on the same pattern.

CHAPTER 20

PLATE GLASS INSURANCE

Purpose.—Plate glass is widely used and is liable to sudden and complete destruction. Since plate glass is expensive, plate glass insurance fills a real need in covering the owner, the lessee and any other responsible party against the hazard of breakage, which may result from any of the following causes :

1. Persons leaning or falling on glass show cases.
2. Articles falling in window display or on glass show cases.
3. Fall of shelves, shutters, transom, or awnings.
4. Door slamming.
5. Damage while window cleaning or dressing.
6. Defective setting of glass.
7. Settling of building.
8. Explosions.
9. Effects of weather conditions, such as floods, windstorms, the sun's rays, frost, snow, hail, or ice.
10. Throwing of missiles by children or from automobiles and other street vehicles.
11. Breakage by workmen, burglars, drunken or quarrelsome individuals, and rioters.

Types of Glass Insured.—In addition to the massive shop window which the term "plate glass" brings to mind, the following are some of the types of glass that can be insured :

1. Art or stained glass
2. Bent glass
3. Carrara—opalite—vitrolite—argentine
4. Clamped glass
5. Colonial—florentine—maze
6. Embossed glass
7. Prism glass
8. Wired glass, both polished and rough

Insurance may be obtained for glass used for other than window purposes, as, for example, show cases, mirrors, shelves, signs, interior partitions, and dome lights.

Coverage.—The plate glass insurance policy indemnifies the insured against loss of or damage to the glass, lettering or ornamentation described in the schedule as a result of breakage.

In addition to the coverage for the breakage of plate glass, the policy also provides that the company is liable for:

1. All damage to glass, lettering, and ornamentation insured caused by acids or chemicals accidentally or maliciously applied thereto, provided such glass, lettering or ornamentation so damaged is thereafter unfit for use for the purpose for which it was being used immediately preceding the occurrence of such damage.
2. The cost (not exceeding \$75) of repairing or replacing the window sashes immediately encasing and contiguous to the insured glass, with sashes of like material, provided that the repairing or replacing of the sashes is made necessary by the damage to, or accidental breakage of, the insured glass.
3. The cost (not exceeding \$75) of boarding up, or installing temporary plates in the windows in which the broken insured glass is located, provided the boarding up or temporary installation is necessitated by unavoidable delay in replacing any insured broken glass.
4. The cost (not exceeding \$75) of removing and replacing any fixtures or other obstructions (excluding show window displays) necessary to the replacement of broken or damaged insured glass.

The insurance company liability of \$75 under each of the items 2, 3, and 4 applies to each store or other premises separately occupied or designated for separate occupancy. The company's liability is limited to \$150 under items 2, 3, and 4 as respects loss due to any one occurrence.

Loss due to fire is excluded. The company promises to re-

place within a reasonable time any broken glass and any lettering or ornamentation covered by the policy, or to pay the actual cash value at the time of loss. Whichever method of indemnification is employed, the broken glass becomes the property of the company.

When the policy specifies a valuation for the lettering or ornamentation, the company cannot be held for more than that limit. The moral hazard is singularly missing in this field of insurance, since the company usually replaces the broken glass and the insured has nothing to gain through occurrence of the peril.

Insurance companies may make replacements themselves or contract with local glaziers in advance for whatever replacement business develops within the area during the contract period. Prompt and satisfactory replacement often at costs lower than would be available to the individual constitutes a service performed by companies in this field.

DESCRIPTION OF INSURED GLASS.—To fix coverage and premium charges, every policy must contain a detailed description of each kind and size of glass insured. The policy must describe the lettering and ornamentation if insured, on a stated valuation basis.

CONTINUED COVERAGE.—Formerly, an additional premium was charged when a replacement was made. The present practice, however, is to cover the new plate for the remainder of the policy term, without any charge for the new glass, lettering, and ornamentation if of the same size and value as the old. Only when there is some difference in the size of this glass replaced or in the value of the lettering or ornamentation is an adjustment premium made.

Duties of Insured.—In addition to notifying the company immediately of loss, the insured must preserve the damaged glass and do what he can to prevent further loss. This requirement for immediate notice permits the company to take prompt action against any person responsible for the damage and to realize the maximum salvage value.

Endorsements.—Plate glass insurance coverage may be extended or modified by the following endorsements to meet special situations:

1. Large plate
2. Cracked glass
3. Description of glass
4. Stained glass—all risk

LARGE PLATE ENDORSEMENT.—When a glass plate with an area of one hundred square feet or more is broken, the large plate endorsement makes it optional for the company to replace the large plate with two plates, the combined area of which equals that of the broken plate. If the company chooses, the indemnity will take the form of a cash payment covering the cost of two such plates at the time of loss.

In the event of replacement by two plates, the company must pay the cost of any necessary alterations. Furthermore, this endorsement entitles the insured to a reduction in premium rates.

CRACKED GLASS ENDORSEMENT.—When a plate glass is already cracked but not too severely, this endorsement may be used to cover the particular plate. The break is described in the endorsement and any extension of the existing crack is not considered a loss under the policy.

DESCRIPTION OF GLASS.—The requirement that the policy should contain a complete description of the kind and size of glass and description of glass lettering or ornamentation insured on a valuation basis thereon is waived under the following conditions: (1) all exterior or interior glass or both, excluding certain special risks otherwise covered are insured; and (2) the annual premium is \$500 or more.

In this event, the policy need not contain a schedule of the insured glass, provided the policy is endorsed to the effect that the company has a copy of the schedule at its home office. The endorsement also provides that when additional glass is installed, it is automatically covered, provided the insured notifies the company within 30 days of the installation. He must also

pay the company a pro-rata additional premium computed at rates in effect at the date of installation.

STAINED GLASS ENDORSEMENT.—Stained glass set in leaded sections may be insured by this endorsement against all risks, except wear and tear and deterioration. For each window so insured, the policy schedule must give a full description and the amount of insurance.

Premium Charges.—Premium charges depend upon the following factors:

1. Geographical location of the risk. This is an important factor in determining the insurance cost, for the price of glass varies in different cities. In some locations there may be no warehouse where glass is kept, and in case of loss a special shipment to that locality would be required. Furthermore, in territories outside cities, there is an added cost for workmanship and the salvage allowed for glass is not usually as much as in cities.

2. Location of the building in a city. In some cities, the various sections of the city are zoned and an attempt is made to base the premium on the conditions in that zone.

3. Position of glass in the building. The hazard of glass breakage is greatest on the ground floor or basement of a building, which is nearest to the pedestrian, the mischief maker and the usual hazards of street traffic. Rates therefore depend upon the distance of the plate glass above the sidewalk.

4. Sizes. The plate glass manual contains tables giving the sizes of plate glass, which are technically known as box-car or flat-car sizes. The rates vary with the length and width of these sizes.

5. Type of setting. The former practice of setting glass on wood frames has given way to the use of copper frames with clamp, glue, or cemented setting. The newer method, however, increases the hazard of breakage from faulty construction.

6. Kind of glass. Whereas ordinary types of glass may be obtained readily, others such as bent glass, may be prepared only on special order. The additional expense required to obtain bent glass must be considered in the rate.

7. Purpose for which the glass is used. More frequent contact is made with certain types of glass than with others. If goods are kept on glass shelves or counters, the hazard is especially great. Articles are constantly being dropped on these shelves and counters and may cause them to break.

8. Discounts. Reduced rates will be granted for all exterior glass above the second floor when all such glass is insured. Furthermore, if any glass is protected by permanent exterior shields of wire mesh or wired glass covering the whole plate, a commensurate discount is allowed for the reduced risk.

CHAPTER 21

CREDIT INSURANCE

Reasons for Credit Insurance.—Many merchants realize the need for fire insurance protection, but few are aware of the need for credit protection, although the annual failure losses in the United States exceed the annual fire losses.

Credit losses are generally due to business failures. Business failures are bound to occur and the merchant extending credit should consider the possibilities of protection against unusual losses which affect his profits and perhaps his solvency. The procedure that the merchant usually follows is to add a sufficient amount to the cost of production to provide for business failures which may occur during the year. This procedure would be satisfactory if there were no unexpectedly heavy losses. Such losses occur very often at times of business depression when the merchant needs his money. Credit insurance is designed to meet this situation.

If credit insurance is purchased, the merchant can grant credit without fear of unusual loss. The assumption must not be made that because a merchant has a credit insurance policy he can extend credit without using proper judgment. Credit insurance helps the activities of the credit man as the business is protected against unusual amount of loss.

Development of Credit Insurance.—The companies originally wrote many limitations in their policies and in addition lacked proper information upon which to make satisfactory rates. After the passage of the National Bankruptcy Act, the credit insurance companies broadened the definition of insolvency in their policies. This broader definition brought many more claims under the scope of the policy and provided an incentive for the purchase of credit insurance.

Method of Writing Credit Insurance.—The writing of credit insurance depends upon the following factors: (1) line of business of the applicant; (2) coverage; (3) past loss experience of the applicant for insurance; (4) type of policy.

LINE OF BUSINESS OF THE APPLICANT.—The credit insurance manual is based on the study of the past loss experience suffered by thousands of wholesale merchants carrying credit insurance. The insurance companies writing this form of insurance have made a special study of the relationship between the yearly amount of sales in various lines of business and the losses suffered by each line of business. As a result of the analysis of this information, all lines of business have been divided into various classes, depending on credit loss costs.

COVERAGE.—Under some policy forms the insurance companies limit the amount of their liability for losses suffered through the insolvency of the customers of the insured. This limitation is based upon the credit ratings of the various customers as given by the mercantile agencies. The ratings may be found in the rating books issued by the mercantile agencies, such as Dun and Bradstreet. The insurance companies have prepared a table which gives the maximum amount recoverable by the insured on a single debtor's account. This amount depends directly upon the rating of the customer as shown by the rating in the agency chosen by the insured. Table 21 illustrates the capital and credit ratings of business firms in the Dun and Bradstreet agency.

In some cases, the credit agencies cannot make any estimate of the wealth of the business firm. A credit rating is then issued without any capital rating. Such ratings are called blank capital ratings.

The heavy line in the table separates credit risks into preferred and inferior classes. A policy covering only preferred ratings is known as a regular policy. When both preferred and inferior ratings are covered, the policy is known as a full key coverage.

Note must be made that customers with the same capital rating may have different credit ratings. For example, a cus-

tomer with a rating of C 1½, estimated capital \$75,000 to \$125,000, is considered to be a better risk than a customer rated C 2½, estimated capital \$75,000 to \$125,000. The division by the insurance companies of credit risk into preferred and inferior is based upon experience.

TABLE 21. CAPITAL AND CREDIT RATINGS OF DUN AND BRADSTREET, INC.

Key to Ratings

Estimated Pecuniary Strength			General Credit			
			High	Good	Fair	Lt'd
Aa	Over	\$1,000,000.....	A1	1	1½	2
A +	Over	750,000.....	A1	1	1½	2
A	500,000 to	750,000.....	A1	1	1½	2
B +	300,000 to	500,000.....	1	1½	2	2½
B	200,000 to	300,000.....	1	1½	2	2½
C +	125,000 to	200,000.....	1	1½	2	2½
C	75,000 to	125,000.....	1½	2	2½	3
D +	50,000 to	75,000.....	1½	2	2½	3
D	35,000 to	50,000.....	1½	2	2½	3
E	20,000 to	35,000.....	2	2½	3	3½
F	10,000 to	20,000.....	2½	3	3½	4
G	5,000 to	10,000.....	—	3	3½	4
H	3,000 to	5,000.....	—	3	3½	4
J	2,000 to	3,000.....	—	3	3½	4
K	1,000 to	2,000.....	—	3	3½	4
L	500 to	1,000.....	—	—	3½	4
M	Less than 500	—	—	3½	4
Blank			1	2	3	4

The heavy line separates credit risks into preferred and inferior classes.

The amount of credit that may be protected by a credit insurance policy on the basis of Dun and Bradstreet ratings is shown in Table 22 for preferred credit ratings.

PAST LOSS EXPERIENCE.—Past experience of the insured will indicate what percentage of sales he has suffered in bad debt losses during previous years. This loss may be expected to continue year after year. The insured protects himself against such loss by taking that amount into consideration when

determining the cost of the article to be sold. The primary purpose of the credit insurance policy is to protect, not against this amount of loss, but against undue loss which has not been included in the cost of sales.

TABLE 22. COVERAGE LIMITS—DUN AND BRADSTREET, INC.

First Credit Rating		Maximum Limit	Second Credit Rating		Maximum Limit
Aa	A1	\$200,000	Aa	1	\$ 50,000
A+	A1	150,000	A+	1	40,000
A	A1	100,000	A	1	30,000
B+	1	75,000	B+	1½	30,000
B	1	50,000	B	1½	25,000
C+	1	30,000	C+	1½	20,000
C	1½	25,000	C	2	15,000
D+	1½	20,000	D+	2	12,500
D	1½	15,000	D	2	10,000
E	2	10,000	E	2½	5,000
F	2½	5,000	F	3	3,000
G	3	2,500	G	3½	1,500
H	3	1,500	H	3½	750
J	3	1,000	J	3½	500
K	3	500			
Blank	1	50,000	Blank	2	25,000

A loss is collectible under the policy only if the total losses covered are in excess of the usual yearly loss, known as the normal loss of the insured. To assist in determining the normal loss of an insured, insurance companies have prepared tables showing the percentage of losses to be expected on annual sales of varying amounts for policies in various lines of business.

Table 23 is an illustration of the percentages of loss in connection with sales of \$100,000, \$1,000,000, and \$10,000,000 in the various classes.

The normal loss which is charged the insured depends upon two factors. These are: (1) manual normal loss, as stated in Table 23; (2) experience rating. This latter depends upon the experience in reference to sales and loss for each of the last

three years and fraction of years to date of the application, or the applicant's entire business experience will be considered if he has been in business for a shorter period.

The normal loss may be reduced by merit rating depending upon the experience rating, i.e., if the loss experience

TABLE 23. LOSS ON SALES

Regular Policies

Class	Sales	Normal Loss	Sales	Normal Loss	Sales	Normal Loss
1	\$100,000	\$580	\$1,000,000	\$1,900	\$10,000,000	\$ 8,500
2	100,000	610	1,000,000	2,200	10,000,000	9,000
3	100,000	690	1,000,000	2,800	10,000,000	11,500
4	100,000	770	1,000,000	3,300	10,000,000	14,000
5	100,000	885	1,000,000	3,800	10,000,000	16,100

Full Key Coverage Policies

1	\$100,000	\$1,050	\$1,000,000	\$3,420	\$10,000,000	\$11,800
2	100,000	1,260	1,000,000	4,104	10,000,000	14,200
3	100,000	1,512	1,000,000	4,920	10,000,000	17,000
4	100,000	1,814	1,000,000	5,900	10,000,000	20,800

is lower than the normal manual loss as shown by Table 23. On the other hand, there may be an increase in the final ascertainment of the normal loss depending upon the following factors: (1) business conditions in applicant's sales territory; (2) character of trade sold by applicant; (3) credit and collection methods employed by applicant; (4) amount and conditions of outstanding accounts.

The amount of the normal loss will affect the company's liability for the various customers. Coverage on debtors with first credit rating is limited to ten times the normal loss. Coverage on debtors with second credit rating is limited to five times the normal loss. Coverage may be obtained in excess of these amounts for the respective credit ratings by specifically naming the debtors. Furthermore, when coverage over \$50,000 on a debtor with first credit rating or over \$25,000 on a debtor with second credit rating is desired, the debtor must be spe-

cifically named in the policy regardless of the amount of normal loss.

Classification of Policies.—Credit insurance policies may be classified as follows :

1. Coverage of policies depending upon agency rating or checking service. Collection service of accounts is rendered by the company on these policies, which are designated as follows : C F, N, and H.
2. Coverage depending upon agency rating or checking service, but on which the company renders no collection service. This policy is designated L F.
3. Policies in which coverage is not based on agency rating. Collection service is rendered under these forms, which are respectively designated as L and C R.
4. Policies under which the company renders checking and collection service on individual accounts. These policies are designated by the following letters: I D, X S, and A C R.

These policies will now be analyzed in the order mentioned.

C F Policy.—The company is liable under the C F form for losses resulting from the insolvency of the insured's debtors up to a stipulated sum designated as the "amount of the policy." These losses consist of the unpaid purchase price of the insured's bona fide sales of merchandise shipped during the specified sales period and actually delivered in the regular course of business.

Debtors include individuals, firms, copartnerships, and corporations in the United States, Canada, and New Foundland. In each case, the loss must have been covered, filed, and proven in accordance with the provisions and conditions of the policy.

Under the C F policy, a debtor is deemed insolvent under any of the following conditions :

1. A debtor absconds.
2. A sole debtor dies.
3. A sole debtor is adjudged insane.
4. A debtor sells or transfers his stock-in-trade in bulk.

5. A receiver is appointed for a debtor.
6. A writ of attachment or of execution is levied on a debtor's stock-in-trade and stock sold thereunder or the writ returned unsatisfied.
7. A debtor offers a compromise to his creditors.
8. There is a recording of or taking possession under a chattel mortgage given by a debtor on his stock-in-trade.
9. There is a recording of or taking possession under an assignment or deed of trust made by a debtor for the benefit of his creditors.
10. There is an assignment or taking over by a committee appointed by a majority in number and amount of the creditors.
11. A proceeding is instituted to adjudge a debtor bankrupt.
12. A proceeding for the relief of a debtor is instituted in a court of bankruptcy.

PROVISION FOR PAST-DUE ACCOUNTS.—The indemnified, during the term of the policy, must file with the company for collection the account against each debtor after it has become due and payable, but before it has become more than 90 days past due under the original terms of sale. Any amount, or so much of an account so filed, is treated under the policy as though the debtor were insolvent at the time the account was filed with the company.

POLICY PERIOD.—The policy term is one year plus the longest terms of sale granted customers plus 90 additional days.

GOVERNING RATING.—The latest published rating book is used to determine a debtor's rating for coverage on shipments made from the first day of the month named by the book to the first day of the month named by the next rating book. When, however, the agency changes a rating by written report compiled and issued to the insured during the effective period of the latest book, the governing rate as determined from the report applies on all shipments made after the insured receives the written report from the agency or written notice from the company. The same rule applies when the written report is issued within 60 days before the period covered by the rating book.

When the debtor's obligations at the date of insolvency are for shipments made under different governing ratings, gross coverage will not exceed the largest amount set opposite any one of the debtor's governing ratings. In case a change of rating reduces the limit of coverage applicable to a debtor, shipments made subsequently are not covered, while the debtor owes the insured an amount equal to or exceeding the amount set opposite the latest rating. If, however, shipments are made under the latest rating, and the amount owed is less than the amount set opposite the latest rating, the latter will be the limit of coverage.

A shipment to a debtor whose name at the date of shipment does not appear in the credit agency book of ratings is covered in the latest report of the agency on the debtor compiled within four months previous to the shipment. If no report has been compiled within four months previous to the shipment, then the shipment is governed by the rating of the agency on the debtor compiled within four months after the shipment.

COINSURANCE CLAUSE AND LIABILITY LIMIT.—From the aggregate amount of net losses as stated in the policy, 10% is deducted for coinsurance.

From the remainder is deducted the normal loss usually calculated at a percentage of total gross sales made during the sales period less returns and allowances. This normal loss deduction may not be less than a specifically designated amount. The remainder not exceeding the amount of the policy and less any amount owing the company is the sum payable by the company.

EXCLUSIONS.—The company is not liable for losses occurring under the following circumstances:

1. Prior to the payment of the policy deposit premium, even though the policy has been delivered.
2. After the termination of the policy.
3. When the loss is not a valid and legally sustainable indebtedness of the debtor or his estate.
4. When the debtor does not have at the date of shipment a governing rating for which coverage is specified in the "Table of Ratings and Coverage."

5. If the terms of sale are longer than a specified number of days, including dating.
6. For any amount sold under a "Style Name" not mentioned in the policy.
7. If any account is not filed in accordance with conditions governing past-due accounts.
8. If the insured makes any agreement which would at the date of filing interfere with the company's exercise of judgment upon any proposal of the debtor to his creditors. The insured must obtain the company's permission before he can properly act on his own behalf.

NOTIFICATION AND FILING OF CLAIMS.—The indemnified must, within a stipulated period after acquiring knowledge of a debtor's insolvency as defined in the policy, and within the term of the policy, file notification of claim with the company on the form prescribed and furnished by the company, and forthwith place the whole account against such debtor with the company for attention and collection. Every notification of claim filed under the condition for past-due accounts must be accompanied with an itemized statement showing fully the dates of shipment, the terms of sale, the true condition of the account, together with all notes or other papers evidencing the same, and any guarantees, securities, or other documents relating thereto. All notification of claim must be received by the company within the time specified, in its designated office, and the claim is then handled upon the terms provided in the policy.

The indemnified must, upon request, promptly furnish all proofs, or any information necessary for the proper handling of any account in any proceeding.

The receipt, retention, or handling by the company of any claim filed by the indemnified under the policy constitutes neither a waiver of any of the terms, conditions, or stipulations of the policy, nor an acceptance of such claim as covered by this or any other policy.

COLLECTION OF CLAIMS AND SCHEDULE OF CHARGES.—The company will assume responsibility for all money collected by

its agents and correspondents and will promptly remit all amounts due the indemnified as collections are effected.

When a claim is disputed, in whole or in part, or when the company considers it necessary for the purpose of enforcing collection from a debtor, guarantor, surety, or endorser, or participating in any proceeding involving the estate of a debtor, guarantor, surety, or endorser, the indemnified must authorize suit or other proceedings and promptly advance and pay suit fees, costs, and expense required in connection therewith. Failure to do so is considered a withdrawal of the stated claim by the indemnified.

When any return of merchandise or direct payment is made to the indemnified, or when a claim is withdrawn by the indemnified, the costs and charges as provided for must be paid to the company by the indemnified, the same as if collection had been effected through the company. No claim withdrawn may be refiled as a claim under this or any other policy.

The company has the right, when it deems it necessary or expedient, to endorse notes, checks, or drafts in behalf or in the name of the insured and to deposit these instruments or their proceeds to the credit of the company.

Except as otherwise provided, the indemnified must pay to the company, on each claim filed, the following charges on collections effected:

1. Free service. Any claim up to a stipulated amount, in so far as covered, filed with the company for collection, before it shall have become more than 90 days past due under the original terms of sale, the company agrees to handle free of collection commissions.

2. Any uncovered portion of a claim filed with the company for collection, or any claim not included in subdivision (1) of this provision, is subject to the following collection commissions if effected through the services of an attorney: 15% commission on the first \$500 or less, 10% commission on the next \$500, 5% commission on the excess over \$1,000.

A minimum commission of \$7.50 is charged, except on collections under \$15, where the commission is 50%.

One half of the above charge is made if collection is effected without the services of an attorney.

Remittance to the insured of the amount collected on filed claims is not to be construed as final determination of allowable loss nor as a waiver of any of the terms or conditions of the policy. Acceptance of remittances by the insured is similarly construed.

FINAL STATEMENT OF CLAIM.—If any claim for excess loss is made under the policy, a final statement of claim, duly sworn to, must be made by the indemnified after the termination of the policy, upon blank forms which are furnished by the company upon application. This final statement of claim must be received by the company at its executive office, within 30 days after the termination of the policy. No claim for loss may be made or allowed under the policy, unless it has been set forth in the final statement of claim.

TIME AND METHOD OF ADJUSTMENT.—The company agrees to make the adjustment within a period not to exceed 60 days after the receipt of the final statement of claim, and the amount then ascertained to be due the indemnified under the policy at once becomes payable.

To ascertain the net loss in any adjustment under the policy, there is deducted from each gross loss covered, filed and proven under the policy:

1. All amounts collected from the debtor or obtained from any other source.
2. The invoiced price of goods returned, reclaimed, or replevined when such goods are in the undisputed possession of the indemnified.
3. Any discount to which the debtor would be entitled at the time of adjustment.
4. Any amount mutually agreed upon as thereafter obtainable.
5. Any legally sustainable set-off that the debtor may have against the insured.

If no mutually satisfactory agreement is reached as to the amount thereafter obtainable on any loss, the company will allow the unpaid part of such loss, so far as covered.

If the entire indebtedness of every kind of a debtor to the indemnified at the date of insolvency is in excess of the gross amount covered by the policy, then the above-mentioned deductions are made pro rata, that is, in the ratio which the gross amount covered bears to the whole of such indebtedness.

After these deductions are made from each gross loss covered, filed, and proved, the remainder is the net loss.

From the aggregate amount of the net covered, filed, and proven losses thus ascertained, there is usually deducted 10% as coinsurance, and from the balance, the normal loss. The remainder (not exceeding the amount of the policy), less any amount owing to the company, is the amount payable to the indemnified.

When any covered and filed claim of the indemnified against a debtor is disputed, in whole or in part, the claim cannot be allowed in any adjustment under the policy until finally determined to be a valid and legally sustainable indebtedness against the debtor or the debtor's estate. At that time such a claim, so far as covered under the policy, is adjusted and the amount due the indemnified will become payable.

The indemnified must assign to the company all claims allowed in adjustment, together with all securities and guarantees relating thereto, except those claims upon which the amount thereafter obtainable was mutually agreed upon, and warrant the legal validity of the indebtedness for the amount of such claims, and upon demand, must reimburse the company for any amount paid by the company to the indemnified on any indebtedness which is not allowed against the debtor or the debtor's estate, together with the expense of any action thereon. The company will handle for the joint benefit of the indemnified and the company, as their interests appear, any claim assigned to the company which has not been covered in full by the policy.

DISPOSAL OF ASSIGNED CLAIMS.—The company agrees promptly to remit to the insured on assigned claims the following, after deduction of collection charges and expenses:

1. Net amount realized on any indebtedness in which the company has no interest.

2. Net amount realized on any indebtedness in excess of the gross amount covered.
3. That portion of the net amount realized in any indebtedness equal to the percentage of coinsurance borne by the insured.

If, after these deductions and remittances, the remaining net amounts realized by the company in the aggregate exceed the total amount paid to the indemnified in adjustment, the company agrees promptly to remit to the indemnified that excess and all net amounts thereafter realized. However, having determined any amount due the indemnified under this condition, the company has the right to retain that amount, or any part thereof, to apply on any indebtedness due the company from the indemnified. Upon the written request of the indemnified, the company will then reassign such claims as were assigned to the company in adjustment.

COLLATERAL BENEFITS.—The policy is not assignable, but the company agrees to provide upon written request from the indemnified, that any excess loss, ascertained to be payable as provided in the condition on time for and method of adjustment clause, shall be paid to any bank, trust company or other payee designated by and for the account of the insured.

TERMINATION OF THE POLICY.—If, during the term of the policy, the indemnified becomes insolvent, or ceases to continue the business in the manner described in the policy, or goes into liquidation, or seeks a general extension from his creditors, or being a partnership is dissolved, then the policy thereupon terminates as to coverage of subsequent shipments. Temporary interruption, however, by fire or by strike, or by the death, withdrawal, or admission of a member of a partnership of more than two members, does not so terminate the policy.

N Policy.—The provisions of the N credit insurance policy are similar to the C F policy except for several essential provisions. These provisions may be summarized as follows:

1. The C F policy provides for compulsory filing of past-due account, whereas the N policy provides for optional filing of past-due accounts.

2. The C F policy covers all sales made during the year, although the insolvency may occur after the year, limited only by the longest terms of sale plus 90 days. The N policy only covers insolvency up to the date of the expiration of the policy which is written for a period of one year.

3. The C F policy covers all sales of the year and therefore has no connection with any other policy. However, since the N policy only covers losses which occur during the year, if a renewal policy is purchased, the companies will attach a back sales rider.

BACK SALES RIDER.—This rider provides that the renewal policy will cover shipments made within the prior policy period provided that any account which is filed and is more than 90 days past due on the renewal date will be subject to an additional coinsurance charge of 10%. The company does not charge an additional premium or increase the normal loss charge for the attachment of this rider. The company may nevertheless subject the rider to any requirements necessitated by unusual conditions of shipments during previous policy period.

H Policy.—The H credit insurance policy is also similar to the C F policy. Unlike the latter, however, the H form does not provide for compulsory filing, but if an account is not filed within 60 days, when the adjustment of loss is made a penalty of 1/5% for each day that the account was filed after 60 days past due will be added to the coinsurance charge.

L F Policy.—This form is similar to the N policy except that there is no provision for service in connection with past-due or insolvent accounts. The insured must handle all insolvencies and he must prove all claims. In view of this, the insolvency provision differs from that of the N policy, since there is no provision for filing of past-due or insolvent accounts. The insolvency and the amount must be established during the policy term. Nevertheless, when a loss occurs, the insured must immediately notify the company.

L Policy.—Customers are covered by the L credit insurance policy without consideration of their ratings. Like the N form

the L policy provides for optional filing of past-due accounts. Another similar provision is that coverage provides only for losses occurring during the policy period.

Under the L form, the aggregate amount of net loss is subject to a deduction of 25% as coinsurance. Another feature of this policy is the imposition of an additional premium charge based on sales in excess of the volume estimated in advance.

C R Policy.—A merchant may not have his own credit department. In order to check prospective purchasers of merchandise he may enter an arrangement with one of the recognized agencies to obtain data for the purpose of extending credit to his customer. The agency will advise concerning shipment of any order. Under such circumstances, the business man can purchase a C R policy.

This policy is similar to the N policy. However, since the amount of credit given to a customer does not depend upon credit rating but the advice of the credit agency, the policy provides coverage on any loss on any account against a debtor only if within 30 days prior to the date of shipment, the indemnified has received from the approved credit agency its latest written credit recommendation covering the shipments to be made.

When the credit recommendation is for less than the total amount of any shipment, the company's liability is limited to the amount recommended. Furthermore, the company is bound only when the shipment is made in exact conformity with all the conditions set forth in the specific credit recommendation.

EXCLUSIONS.—When the insured receives notice of revocation of the credit recommendation before the date of any shipment, the company ceases to be liable for any loss on that shipment.

The policy also excludes losses on accounts sold on credit terms longer than the prescribed number of days including the dating. If shipments are made to debtors who owe the insured for any prior covered indebtedness which is more than 30 days overdue, the policy likewise excludes losses on these shipments until the earlier covered indebtedness has been paid.

I D Policy.—This policy is issued to cover the insured against loss on a named individual account. Like the C F form, the policy covers all sales made during the policy period except that past-due accounts must be filed within 60 days. Liability limits are based upon the credit rating of the customer. As the policy covers only a single debtor, there is no need for a normal loss provision. Nevertheless, the loss is subject to coinsurance.

CANCELLATION.—An important difference between the C F policy and the I D policy is that the latter may be cancelled either by the company or by the insured. This cancellation, however, does not affect shipments made prior to the effective date of cancellation.

X S Policy.—Like the I D form, the X S credit insurance policy covers the insured against loss on one named individual account. The policy, however, is further designed to meet the need of business men who wish to be protected against losses in excess of amounts which they could reasonably expect to collect even if the named debtor became insolvent. Hence the X S form differs from the I D form in that the liability limits are not based upon the customer's credit rating.

ADJUSTMENT OF LOSS.—The X S policy is subject neither to coinsurance nor to normal loss deductions as such. From the proven loss is deducted the primary loss which the insured has agreed to assume. The balance less any items owing to the company is the ultimate loss payable to the insured.

ADVANCES AGAINST EXCESS LOSS.—Between the time of the debtor's becoming insolvent and ascertainment of the ultimate excess loss, the insured is entitled to an advance not exceeding 80% of the probable ultimate excess loss.

Since the ultimate excess loss, at any time prior to the final liquidation and distribution of the debtor's estate, is indeterminate, the amount is arrived at by mutual agreement between the company and the insured. If an advance is made against an account not covered in full, the remittance is made in the ratio which the uncovered portion bears to the whole of such indebtedness.

DUTIES OF INSURED.—When an advance is made by the company, the insured must assign to the company the whole account against the debtor, together with all securities and guarantees relating to the account. He must further warrant the legal validity of the debt and pay 6% interest compounded semi-annually on the advance. The interest period continues until the adjustment has been made or until the company has been reimbursed for the advance. On the latter date, the company will immediately turn over to the insured any amount received in excess of the advance that was made to the insured by the company.

In addition to interest, the insured must bear all collection expenses incurred in settling the account. This expense is deducted from the remittance made to the insured by the company.

The A C R Policy.—This policy is similar to the I D policy except: (1) any number of debtors may be covered under the policy; (2) the premium charged is based on the insurance company's rating of the customer; (3) a separate charge is made for each shipment, whereas under the I D policy a flat premium charge is made for the year, regardless of the amount of turnover.

An examination of this policy will indicate that the insurance company is offering coverage which is very similar to business performed by factors.

CERTIFICATE OF APPROVAL.—The insured must submit an application on a form furnished by the company for each debtor to be covered by the policy. The company will then issue either a certificate of approval or a notice of disapproval. No charge is made for a disapproval notice.

The certificate of approval states the amount of approved coverage, the maximum terms of sale, and the premium rate. Unless notice of cancellation is sent the insured, the certificate remains in force until the expiration of the sales period. Cancellation becomes effective for future shipments on the date of receipt by the insured.

COVERAGE OF INVOICES.—The policy covers losses on shipments to approved debtors provided the insured has filed copies of invoices covering such shipments at the company's designated office within 10 days after shipment. Invoices are covered in the order in which copies are filed at the company's office until they amount in the aggregate to the limit specified in the certificate of approval. Invoices filed in excess of the specified limit are subject to coverage to the extent that prior covered invoices are wholly or partly paid within 30 days after maturity under the original terms of sale.

The company is not liable for loss of shipments when made to debtors while any prior covered indebtedness which is 30 days past due remains unpaid. Losses on accounts not filed in accordance with the condition for past-due accounts are likewise excluded.

Credit Insurance Policy Endorsements.—Among the special riders provided to meet the special needs of policyholders, the following may be mentioned:

1. Goods-in-process
2. Construed date of shipment
3. Interim adjustment of claims
4. Antedating rider
5. Guarantor rider
6. Excluded sales rider
7. Extraordinary debtor rider

GOODS-IN-PROCESS RIDER.—Credit insurance covers only actual sales which are shipped and delivered. If the insured has taken an order from a customer and the goods are to be manufactured for the special use of the particular customer, the insured may suffer a serious loss even though the goods are not shipped prior to the customer's insolvency. The goods-in-process rider protects the insured against this contingency.

CONSTRUED DATE OF SHIPMENT RIDER.—Where ratings are employed, the various policies provide that the rating at the date of shipment governs the liability of the company. In consideration of an increased total basic premium, however, the policy may be endorsed to provide that the rating in effect at

the date of acceptance of the order governs. However, the goods must be shipped within a stipulated period after the acceptance of the order.

INTERIM ADJUSTMENT OF CLAIMS RIDER.—Insurance companies are not obligated to make any adjustment until the end of the policy period. In consideration of an additional premium, however, a rider for insolvent accounts or insolvent and past due accounts may be attached to the policy, providing for payment of losses prior to the expiration of the policy. At the end of the policy period, an accounting is made and, if any excess has been paid to the insured, he must refund this amount to the company.

ANTEDATING RIDER.—Sometimes for convenience, it is desirable to date the policy from the first day of the month in which the application was accepted. This can be accomplished by means of the antedating rider. The policy does not, however, cover accounts which have failed prior to the date of the application, or which are overdue under original term of sale, or for which ratings are reduced by the mercantile agency prior to the payment of the premium.

GUARANTOR RIDER.—The insured may sell to a certain customer only if the account is guaranteed by a third party. Upon request, insurance companies will attach a guarantor rider which provides that the rating of the guarantor shall govern, instead of that of the debtor. To prove a loss under this policy, however, the customer as well as the guarantor must become insolvent. There is no premium charge made for this rider.

EXCLUDED SALES RIDER.—An insured may desire to exclude certain accounts from one of the policies on which the premium is based on sales. This can be accomplished by the excluded sales rider. This rider provides that certain named accounts are excluded from any consideration under the terms of the policy. If any accounts that were excluded become insolvent, the loss, therefore, cannot be proved under the policy. In computing the premium, no charge is made for these excluded accounts.

EXTRAORDINARY DEBTOR RIDER.—An insured may desire coverage for an account which is otherwise not covered by the policy. By endorsement the company will grant coverage for specified named debtors who would not be covered by the policy subject to stipulated maximum amount for all liabilities so assumed. In addition the endorsement provides for cancellation of the endorsement by the company or by the insured.

Premium Charges.—Premium charges for C F, N, H, and L F policies are based upon the following factors: (1) number of credit ratings covered, (2) amount of maximum liability for each credit rating covered, (3) sales volume, (4) amount of policy, (5) coverage for extraordinary debtors, (6) terms of sale, (7) use of riders such as "Goods-in-Process" and "Interim Adjustment."

The premium charge for L and C R policies depends upon: (1) amount of the policy, (2) sales, (3) terms of sale.

The premium charge for the I D policy depends upon: (1) credit rating of the debtor, (2) terms of sale.

The premium rates of the X S policy depends upon: (1) the percentage of liability which the insured assumes, (2) terms of sale.

The premium charge for the A C R policy depends upon: (1) financial setup of each of the debtors and pay habits, (2) terms of sale.

PREMIUM ADJUSTMENTS.—For policies containing a normal loss provision, premium charges may be varied by increasing or reducing the normal loss. An insured desiring a reduced premium may obtain the reduction if he agrees to an increased normal loss. He may be charged, for example, one-third the basic premium, if he agrees to have the normal loss equal to 110% of the sum of the following items: (1) two-thirds basic premium, (2) normal loss.

To illustrate, assume a basic premium of \$1,100 and \$1,000 normal loss, the premium charge will be \$700 and the adjusted normal loss will be \$1,470 as shown by the following computation:

Basic premium.....	\$1,100
Normal loss.....	1,000
	<hr/>
Combined total.....	\$2,100
<i>Premium rate:</i>	
One-third \$2,100.....	700
	<hr/>
<i>Basic normal loss:</i>	
Two-thirds \$2,100.....	\$1,400
Plus 10%.....	140
	<hr/>
Adjusted normal loss.....	\$1,540
	<hr/>

Underwriting Considerations.—Before issuing credit insurance policies, insurance companies consider among others the following factors:

1. Personnel of applican..
2. Ability of credit man and organization of credit department.
3. Line of business.
4. General business conditions.
5. Specific business conditions.
6. Classes of customers.
7. Territories covered.
8. Terms of sale.
9. Limits of coverage.
10. Past experience.

CHAPTER 22

TITLE INSURANCE

Reason for Development of Title Insurance.—Every purchaser of real property covering land, or land and buildings, demands a deed describing his title to the property that he has purchased. Before he accepts this deed, the public records covering everything which appertains to the property, as well as to the previous owners, should be investigated.

The general practice is to hire a lawyer when purchasing property, since the average purchaser has neither the training nor the knowledge to determine the validity of the title. Any lawyer who undertakes to examine the title to real property holds forth that he is competent to examine titles and that he will use with skill the knowledge which he has obtained. He does not guarantee, however, the result of his work. The professional conveyancer who examines a title gives his opinion based upon his examination. His duty is to make an abstract of the title and to furnish his client with a summary of the records covering grants, conveyances, will, liens, encumbrances, judicial proceedings, mortgages, taxes, assessments, and any other matters which may affect the title. Failure to perform this work properly makes the one preparing the abstract liable for loss that his client may suffer. He is not liable, however, for any defects not within the public records. He cannot state whether the public records covering previous conveyances are the original instruments which were used. He can only state that he believes them to be copies of the original instruments. This statement he has the right to make, because he may assume that any given instrument as it appears on the record, is authentic and not a forged instrument. He may also presume that the signer of any instrument affecting the title was competent and not insane at the time of the signing. He may assume, in the case of a will, that citations have been served upon

all the heirs-at-law of the deceased who formerly owned the property and that no one was omitted. If, as a result of his examination of the records, the conveyancer decides that the title is marketable, both in accordance with the facts and in accordance with the law, he is not liable for any defect. All that is required of him is the application of ordinary and proper skill.

Causes Proving Titles Defective.—Defective title may result from various causes, including the following :

1. Transfer of a title based upon an invalid will.
2. Defective probate of will covering property.
3. Dower claim of widow of one of the former owners of the property.
4. Transfer of property by a forged deed.
5. Defective foreclosure of the property.
6. Execution of a deed by a lunatic.
7. False affidavits.
8. Claim of old lanes and roads which may cross the property.
9. Liens omitted from the search of the property.
10. Undiscovered heirs to the property.
11. Defective acknowledgment, which is material to any of the subject matter, in any of the papers covering any transfer of the property.
12. Transfer of property by an invalid power of sale given by one of the former owners.
13. Undiscovered wills affecting property.
14. Mistake in the description of the property.
15. After-born children who have never been included in a transfer of the property.
16. Placing property in trust which may be illegal.
17. Hitherto undisclosed restrictions on the property.

To cover the many hazards involved in a real estate transfer, title insurance guarantees the result of an examination of any title to a purchaser or mortgagee of property. Obviously, this form of insurance is possible only where proper public records are kept. The title insurance policy promises to protect the in-

sured, that is, anyone who owns real estate or who has advanced money on real estate, against loss or damage, subject to the limitations of the policy. The insurance company agrees to hold itself responsible for any defect in the title to any particular property or for any liens, or encumbrances on the property, which were unknown at the time the policy was issued. The policy covers only defects which existed at the time of the issuing of the policy, and is not intended to cover any defects which may arise after the policy was issued. In this respect, it differs from other forms of insurance. Other insurance policies provide protection for contingencies which arise after the issuance of the policy, whereas a title insurance policy provides protection only for defects which existed at the time of issuance.

Lawyers should not strenuously oppose the introduction of title insurance. They have no liking for liability which the greatest possible care on their own parts might not save them from incurring. The fact is that a large amount of the business which comes to title companies is obtained from attorneys acting for their clients.

Cost of Searching Title to Property. —One of the reasons for the development of title insurance was the expense required in connection with the passing of title every time real property was sold. The transaction usually involved the retaining of an attorney by each purchaser and the retaining of an attorney by each seller. The purchaser's attorney searched the title to the property, without obtaining the benefits of previous examinations of title. The idea arose that corporations should be organized which would make a search of property, charge a fee for the search, and guarantee the validity of the title. When this fee was charged, any new purchaser or mortgagee of the property could rely upon the previous searches that had been made, and this obviated the necessity of making a complete search each time the property was sold. Naturally, title insurance is given only where the insurance company is reasonably certain that the title is good. In title insurance the fees are used mainly for expenses which are costly because of the professional and scientific work required. The portion used for losses is small.

Facilitation of Quick Search of Title.—Title insurance has been developed not only because of the fear of invalid titles, but also because of the ability of title companies to make quick searches and thus to hasten the fulfilment of transactions of real estate. In order to accomplish this quick search, the title insurance companies make a copy of all real estate records in the various localities in which they operate, whether or not they have insured the property. This is a very large and extensive undertaking. It involves the copying of all instruments affecting the land from the very first record to the latest record found in the county clerk's office. The instruments that are copied are not filed by the names of the parties mentioned in the instrument. The practice of the company is to open an account for each piece of land. In this account entry is made for every instrument which affects the title. This record, once prepared, is kept up to date by posting to the proper account a copy of every new instrument recorded. Although the development of such a record plan is very costly, once the plan has been developed, the cost is justified by the ease with which the company can make an examination of the title. The development of this method eliminated the old plan of making a complete search of every instrument each time a piece of property was transferred. The fact is, the title insurance company has practically a complete abstract of the title which can be placed immediately in the hands of the legal department of the company, to be examined and passed upon and verified wherever necessary. As the business of the company increases, the material is gradually changed from a collection of unexamined instruments into a group of examined and approved instruments. The value of the information gathered by the title insurance company is perfectly obvious. Anyone who intends to purchase property or who wishes to lend money on property can know the past history of the property before completing his purchase. He can determine who owned the land, what was the previous selling price, and what loans were made on the property.

Making Real Estate Salable.—The chief advantage of the record plan, however, lies in making the real property quickly salable. Everybody recognizes real estate is an investment, but

many shun this form of investment on account of the difficulties involved. In the past many banks refused to accept property as collateral. This may be due to the problem of the validity of title, and the delay and expense involved in determining the ownership of property. Title insurance, however, will help eliminate this difficulty.

Title insurance policies are not uniform throughout the country and may be issued both to owners of property and mortgagees. One form protects the insured not only against defect of title but also against loss by reason of unmarketability. The analysis which follows is based on this form.

The title policy may be divided into four sections :

1. Insuring agreement.
2. Schedule describing subject matter.
3. Exceptions and limitations.
4. Conditions governing the company and the insured.

Insuring Agreement.—The policy under consideration covers up to a designated amount losses occurring under the following conditions: (1) defect of title affecting the described premises or the insured's interest therein; (2) unmarketability of title by reason of liens or encumbrances existing at the date of the policy.

This coverage does not include, however, any loss occasioned by estates, interests, defects, objections, liens, and encumbrances specifically excluded in the sections of the policy devoted to exceptions, limitations, and conditions.

Any loss for which the company may be liable may be applied to the payment of any mortgage mentioned in the policy. In the event that the insured subsequently makes any mortgage, the title of which is insured or held by the company, settlement may be made in the same manner. Amounts so paid are deemed payments to the insured under the policy. In no event, however, will the aggregate liability of the company exceed the amount named in the policy.

Description Schedule.—The schedule describing the subject matter contains three subdivisions :

1. Estate or interest of insured in premises. The interest may be that of owner in fee simple, mortgagee, or lessee.
2. Instrument through which title or interest is vested in the insured. The instrument may be a deed, will, mortgage, or lease.
3. Detailed description of property covered by policy.

Exceptions.—The section devoted to exceptions and limitations lists those estates, interests, defects, objections to title, liens, charges, or encumbrances which affect the premises or interest, but which the policy does not cover.

Policy Conditions.—This section describes the respective duties and rights of the insured and the company under the policy. The following are important conditions of the policy.

Incidence of Claims.—The company does not become liable for claims until after one of the following occurrences :

1. Decree of court of competent jurisdiction under which the insured is evicted from the premises or dispossessed of any interest therein.

2. Final determination by court of competent jurisdiction upon a lien or encumbrance not excluded in the policy. To furnish grounds for recovery, the decision of the court must be adverse to the title as insured.

3. Rejection by purchaser of title because of some defect or encumbrance not excepted in the policy. To bind the company, the insured must have contracted in good faith and in writing to sell the insured estate or interest. Furthermore, notice must be given to the company within a stipulated time of the rejection.

For a stipulated period after receiving notice of vendee's rejection of title, the company may exercise one of two options. Upon presentation by the insured of adequate proof of loss, the company may elect to pay the actual damage sustained. Alternatively, the insurer may choose to defend or maintain actions or proceedings undertaken in courts of competent jurisdictions to determine the validity of the vendee's alleged objection to title. The suit or defense may be carried out by the company either in its own name or in that of the insured. In

the event that the vendee's objection is sustained by the court, the company will pay the loss.

4. Where the company assumed liability under a policy covering the interest of the mortgagee, final determination by a court of competent jurisdiction that a mortgage is invalid or subject to a prior lien.

5. Rejection of title by a proposed lender, where the insured has negotiated a loan secured by a mortgage on the estate or interest covered by the policy. Where there is no dispute of the facts, the company may consent to have the validity of title passed upon by a court of competent jurisdiction. Upon the decision of the court will rest the liability of the company, but in no event will the insurer be obligated to make a loan as a substitute for one rejected.

6. Final judgment by a court of competent jurisdiction against the insured or his heirs, executors, administrators, or successors on any covenant or warranty contained in an instrument used by the insured to transfer title, because of some defect of title or encumbrance not excepted by the policy.

Subsequent Defect.—As mentioned previously, defects and encumbrances arising after the date of the policy are not covered. Taxes and assessments, for example, which have not become a lien up to the date of the policy or which are payable in future installments, are excluded. Furthermore, no approval of any transfer of the policy is deemed to cover any such defects, encumbrances, taxes, or assessments.

Personal and Other Property Excluded.—The policy does not cover the title to personal property under any condition. This rule applies whether the personal property is attached to or used in any connection with the premises.

In addition, the policy excludes title or rights of the insured to any premises beyond the limits set in the policy. Streets, roads, avenues, and lanes on which the premises abut are similarly excluded, unless specifically expressed as being insured. This exclusion does not apply, however, to ordinary rights of light, air, and access belonging to abutting owners.

Furthermore, the policy does not cover buildings and other

erections which fail to comply with state or municipal laws, regulations and ordinances. Finally, the company is not liable for any losses arising from the exercise or attempted enforcement of governmental police power over the insured property.

Written Notice.—When any action or proceeding is begun or paper served with the object of attacking the validity of a title, or of raising any material question which might subject the company to liability, the insured is required at once to notify the company in writing.

If notice is not given to the company within a stipulated period after service of the first summons or other process, the policy is voided. An assignee for value, provided the company has evidenced its approval of the assignment on the policy, is not subject to this provision, when his failure to give notice resulted from his ignorance of service having been made. Furthermore, the company is not released from liability by failure to give notice unless this violation has prejudiced or will prejudice the interests of the company.

Defense of Suits.—The company agrees to defend the insured in all actions or proceedings provided on claims of title or encumbrances existing prior to the date of the policy. This priority in time of claim is necessary to provide coverage under the policy. The company also has the right to maintain or defend any action in connection with the title insured or in regard to any covenant relating to the title. All such suits are undertaken or defended at the company's own expense.

Appraisal.—In case of liability, the company has the right to demand a valuation of the insured estate or interest. The valuation is determined by two arbitrators, one chosen by the company and the other by the insured. If they cannot agree, the arbitrators choose an umpire to determine the valuation.

When appraisers are thus employed, no right of action accrues against the company until a stipulated period after it has been served with notice of the valuation and with a conveyance or transfer of the insured's estate or interest to a purchaser to be named by the company. The company is released from liability if during that period a purchaser is found for the estate

or interest at the specified price, less the amount of encumbrance exempted from the policy.

Payment of Loss.—Once the company's liability is definitely fixed, the loss is paid within a stipulated period. The company has the option either of settling the claim or paying the policy in full. Liability to any collateral holder of the policy may in no case exceed the pecuniary interest in the policy. Payments made under the policy reduce the amount of insurance.

In addition to the actual loss, the company will pay all costs of litigation carried on by the insurer on behalf of the insured. The company is in no case, however, liable for more than the amount stated in the policy. Furthermore, fees for counsel employed by the insured are not a liability of the company.

No payment or settlement may be demanded without submitting the policy for endorsement to the effect that the payment has been made. In the event the policy is lost, satisfactory indemnity must be provided for the company.

Coinurance Clause.—In case the premises are subsequently improved or altered at a cost exceeding 20% of the amount insured, the company is liable only for that proportion of the loss as 120% of the amount of the policy bears to the total value of the property after improvement.

Apportionment Provision.—When the premises are divisible into separate independent parcels, the loss on any one parcel is computed and settled on a pro-rata basis. In these computations the amount of the policy is treated as if divided pro rata in accordance with the values of separate parcels as of the date the policy was issued. Improvements made after the date of the policy are not governed by this provision.

The coinsurance clause and apportionment provision do not apply to a mortgagee policy.

Subrogation.—After a claim has been settled under the policy, the company is entitled to all the rights and remedies which the insured would have had if the policy had not been in force. Accordingly, the insured is required to cause all such rights to be transferred to the company as well as to permit the use of his name in defense or recovery proceedings.

If the payment does not cover the insured's loss, the company is subrogated to his rights in the same proportion as the payment bears to amount of loss not covered by the payment.

Policy Transfers.—Transfer of title insurance policies is generally prohibited. A policy held by the owner of a mortgage or other encumbrance, however, may be transferred to the purchaser at a foreclosure sale of which the insured is a party. Other transfers may be permitted by special written agreement and endorsement on the policy by an officer of the company.

In the absence of permission which the company may deny at its option, all interests in the policy cease except as to damages accrued.

Premium Charge.—The insurance fee for a title policy is paid when the policy is issued. There is no further premium charge as long as the policy is held by the one to whom it was issued. In other words, this practice is different from the usual type of policy where the premium is renewed at definite periods, at which a new fee must be paid. The fees charged depend upon the following factors: (1) the type of policy, that is, owner's policy or mortgagee's policy; (2) the locality in which the policy is issued; (3) the amount which must be the purchase price, in case of purchase of property or the amount of the mortgage that is issued, if the policy covers the mortgagee's interest.

In case of a loan, title companies are usually unwilling to issue policies for an amount lower than the loan. The reason is that if a loss is sustained the companies prefer to take over the property, obtaining complete interest and paying the full amount. An effort is made to cure any defect in the title and then sell the property.

In addition to insurance fees, the insurance company charges the policyholder for drawing and recording papers and making searches and surveys, as may be required.

If a policy has once been issued and the property is subsequently sold or the mortgage transferred, a new policy may be obtained covering the interest of the new owner or new mortgagee, at a reduced rate.

CHAPTER 23

FIDELITY AND SURETY BONDS

The act of guaranteeing the honesty of individuals or the performance of obligations by individuals or business firms or corporations has been carried on ever since the development of commerce. Originally, the method was for a private individual to guarantee the performance of an obligation by another in favor of a third party.

Parties to the Guarantee.—Every guarantee involves three individuals: (1) the principal, that is, the one on account of whom the guarantee is given; (2) the surety or obligor, that is, the one who guarantees payment in case of failure of performance of the obligation by the principal; and (3) the obligee, that is, the one to whom the surety is liable in case of misfeasance by the principal.

Reason for Rise of Corporate Bonding.—The practice of private individuals acting as guarantors led to considerable dissatisfaction. The obligee, the surety, and the principal found the practice undesirable. The reasons for this dissatisfaction were as follows:

1. The obligee's dissatisfaction. (a) Sometimes the financial standing of the surety decreased after the surety had guaranteed the bond. The guarantee was, therefore, inadequate. (b) If the surety conducted a business of guaranteeing for others, he could charge excessive rates as his charges were not subject to supervision by the state.

2. The surety's dissatisfaction. (a) If he was a friend of the principal, his obligation was given usually without charge. (b) In no case was he able or did he have the facilities to investigate the principal or to watch his actions.

3. The principal's dissatisfaction. (a) The principal was

never certain that the guarantee of the obligation would continue to be valuable and satisfactory to the obligee. (b) If the surety could withdraw his guarantee and did so, the principal had to seek a new surety. (c) In many cases the principal found difficulty in finding a surety satisfactory to the obligee. (d) The principal was placed in the position of having to return favors to those who had gone bond for him if without charge.

The many causes of dissatisfaction assisted in the development of corporate suretyship. This branch of business is conducted usually by organizations with large amounts of capital and surplus, and is subject to the supervision of the state. These corporations do not possess the defects of the individual surety. A surety company must have an organization adequate for properly investigating and supervising the principal. The capital and surplus are of such size that the obligee cannot object to the financial standing of the surety. The business is supervised by state insurance departments and the rates are usually subject to regulation.

Two Classes of Bonds.—The business can be divided into two classes: fidelity bonds and surety bonds. The fidelity bond guarantees the honesty of an individual. The surety bond guarantees the performance of an undertaking, such as the construction of a building. Many of the bonds discussed in this chapter contain both the fidelity and the surety coverage.

Collateral.—Since the primary purpose of surety bonds is to serve in the extension of credit, surety companies seek to secure themselves against loss wherever possible. To accomplish this, in many cases, the companies demand that the principal give them collateral as security. If a misfeasance occurs, the surety companies can then sell the collateral that has been deposited. Generally the following types of collateral are acceptable: (1) cash or certified check; (2) savings bank books properly assigned to the bonding company; (3) bonds listed on the stock exchange and made payable to the bearer; (4) stocks listed on the stock exchange.

The principal may desire to offer mortgages and real estate as security. These are not desirable forms of collateral. The

reason is that the bonding companies can only be certain after a title search has been made that the principal has the interest he claims in the mortgage or real estate. The cost of the search is expensive and the time required long. Also there is the problem of liquidation and marketability of the property in case the property is acquired by the surety company.

Types of Bonds.—The various types of fidelity and surety bonds may be classified and analyzed under the following major group headings :

1. Fidelity bonds
2. Bankers' and brokers' blanket bonds
3. Forgery bonds
4. Fraud bonds
5. Contract bonds
6. License and permit bonds
7. Public official bonds
8. Court (fiduciary) bonds
9. Court (guarantee) bonds

1. Fidelity Bonds.—Four types of fidelity bonds are issued for fidelity risks: (a) individual bond, (b) name schedule bond, (c) position schedule bond, and (d) blanket bond.

Employers of cashiers, bookkeepers, clerks, in fact, of any employees who handle money or merchandise, often demand a fidelity bond to guarantee the honesty of the employee. The custom for employers to demand fidelity bonds has grown because the expense is small for the protection obtained. There are a number of employers who object to purchasing bonds, asserting that they know their employees are honest or that they have an auditing system which will prevent dishonesty. Examination of the daily paper will indicate that these arguments are woefully weak.

Investigation of Employee's Record.—In order to underwrite bonds properly, the bonding companies investigate both the employee's and employer's records. The employee's record is investigated principally concerning :

1. Past business experience. A detailed investigation is

made of the past business experience of the employee to be bonded. The employee must be able to account completely for his entire past experience. Inability to do so is an indication that the risk is undesirable. Inquiry is made of previous employers, although failure upon their part to respond is but negative evidence and is not always considered unfavorable to the employee.

2. Personal habits. An investigation is made to ascertain whether the employee is addicted to immorality, excessive drinking or gambling, and what is his standard of living.

Investigation of Employer's Record.—The employer's record may be investigated concerning the following facts:

1. The class of business he conducts.
2. The type of auditing system that he employs. The auditing system should be one in which the same employee does not both handle cash and make entries on the books of account. The frequency of verification and checkup is important to prevent continued defalcation.
3. Whether the employer rotates his employees, that is, changes their type of work. It is helpful to the surety companies, if he does so.
4. Whether the employer gives his employees an annual vacation. This practice is also helpful to the surety companies. If the employee has been dishonest, the fact is often discovered by the new employee who takes his place during the vacation period.
5. Whether the employer pays his help a sufficient amount to meet the employee's standard of living.
6. Whether the employer pays his employees by salary or by commission.
7. Whether the employer permits his employee to sign checks without a countersignature.
8. Whether the employer requires branch managers to deposit funds frequently and permits withdrawals only by check of the employer.
9. Whether the employer knows of any previous defalcation by the employee.

Reasons for Rejection.—The bonding company judges each case separately. The usual reasons for rejection may be summarized as follows:

1. The employee has proved to be dishonest in previous employment.
2. The employee has shown an addiction to drink.
3. The employee is subject to excessive dissipation.
4. The employee has questionable associates.
5. The employee has a tendency for gambling.
6. The employee is heavily in debt or has been too extravagant in his spendings.
7. The employee has not given satisfactory references or if he has, there has been received adverse information.
8. The company finds that it cannot verify the application of the employee as to his previous career.

The surety company may be requested by the employer, the applicant, or the applicant's friend to disclose the reasons for refusal to issue a bond. Since this information is confidential the reasons are rarely disclosed. The surety company should protect the one giving the information from the possibility of libel action.

The surety company is sometimes requested to issue a bond without the knowledge of the employee. This undesirable practice would remove one of the safeguards which the surety company demands. If the employee knows that he has been bonded, he feels that he is under a double watch, the watch of the employer and supervision of the surety company.

Individual Fidelity Bond.—The company indemnifies the insured employer against any direct loss of money or other personal property belonging to the insured or for which the insured is legally liable. The perils covered include larceny, embezzlement, forgery, misappropriation, wrongful abstraction, or any other dishonest or fraudulent act or acts committed by the particular employee.

LIMIT OF LIABILITY.—The fidelity and surety bond is continuous from its inception to its termination. The indemnity for separate periods, however, is not cumulative. If, by en-

dorsement, the indemnity for separate periods is changed to different amounts, the maximum liability of the company for all defaults cannot exceed the largest amount of indemnity in force during any period in which defaults have occurred. Furthermore, indemnity for one period is not available for defaults occurring within any other period.

SALVAGE.—The company is liable for the net loss after deducting any money or credit due the employee by the insured. Recoveries made prior to payment of the loss are also deducted. If the insured's net loss after these deductions exceeds the amount paid by the company, he is entitled until fully reimbursed to all further recoveries less the expense of collection. This provision is also found in various fidelity bonds discussed in this chapter.

Name Fidelity Schedule Bond.—The early practice of fidelity companies was to issue a separate bond on each employee. This method was cumbersome and expensive where numerous employees were engaged by one firm. To reduce clerical work on the part of the obligee and operating expense on the part of the company, a name schedule bond may be obtained covering all employees. This bond is similar to the individual bond, except a schedule is provided listing the name, positions, and location of each insured employee, the limit of coverage on each, and the premium charge.

EXTENT OF COVERAGE.—The name schedule bond covers employees named in the schedule in the same manner that the individual fidelity bond covers the named employee. Additional employees may be covered by endorsement for the limit stated in the schedule or endorsement. The amount of insurance may likewise be changed by endorsement or by specifying a different amount in a new schedule, which is attached on each anniversary date. By endorsement, it is also possible to make changes between anniversary dates.

The schedule bond usually provides for automatic coverage of a new employee who succeeds an employee previously covered for the same amount for a period of, for example, 90 days. Any new employee or an old employee not covered, upon taking

a newly created position is covered automatically for a like period. This provision is subject to an appropriate limit of coverage and is designed to cover employees even though there is delay in adding their names to the schedule.

RESTRICTED BOND.—Certain classes of employees, such as rent collectors, are considered extra-hazardous. To insure these riskier groups, a restricted form is provided. Some features of this form, which may be either individual or schedule, may be summarized as follows: (1) coverage is against larceny and embezzlement; (2) in case of a loss in excess of the bond, there is a pro-rata division between the employer and the company of any salvage if recovered.

Position Fidelity Bond.—The individual and schedule fidelity bonds are effective only when the name of the principal is stated in the bond or in a schedule attached to the bond. In many cases, this is ineffective as far as the obligee is concerned. If the firm is large it may be constantly taking on or promoting employees. There is a possibility that some of these employees may make defalcation before the surety company can be notified concerning their bonding. To eliminate this difficulty, a position fidelity bond is issued to cover any occupant of the positions covered by the bond. Additional positions may be added on the anniversary date or by endorsement during the policy year.

The position schedule bond may also provide automatic coverage for a period of, for example, 90 days in the case of employees occupying newly created positions.

PAYMENT OF LOSSES.—The amount of coverage on any position is available throughout the policy period. Thus, if the company pays any loss on default of a person in a covered position, the same liability remains for prior or subsequent occupants of that position.

Blanket Fidelity Bonds.—The individual bond or the schedule bond covers specifically named individuals. The position bond covers various individuals in specified positions, without naming the individuals. The blanket fidelity bonds cover

all bondable employees without naming the individuals or their position.

Blanket fidelity bonds are issued in the three following forms: (a) primary commercial blanket bond, (b) excess commercial blanket bond, and (c) blanket position bond.

Primary Commercial Blanket Bond.—Bondable employees are all natural persons in the regular service of the employer and whom he has the right to govern and direct at all times in their employment. Their compensation may be in the form of salaries, wages, commissions, or any combination thereof. Corporate directors who are not officers, however, are not covered. Brokers, factors, commission merchants, consignees, contractors, and other agents or representatives of like nature are also excluded.

LIMIT OF LIABILITY.—The primary commercial blanket bond is issued subject to a definite amount of liability.

The surety is not liable for more than the amount stated in the bond for any one loss or series of losses caused by the dishonesty of one or a group of employees. Any sum paid in settlement of loss is deducted from the amount of the bond as of the date the surety is notified of the loss. Only the remainder is available for other losses whether occurring before or after that date. The sum deducted may be restored, however, as of that date by payment of an additional pro-rata premium for the period from the date of restoration to the end of the premium year. The restored amount then applies only to subsequent losses.

The employer may relieve himself of the necessity of additional premium after settlements by paying an extra premium in advance. For this consideration the bond will be amended so as to continue in force for the full amount to the end of the premium year, irrespective of loss settlement.

If the employer states his intention to carry fidelity suretyship on any of his employees and thereby receives a reduction in premium, then the company's liability for any dishonest act by any employee will be only for so much of the loss as exceeds the amount of fidelity insurance for which credit was given by the company.

Excess Commercial Blanket Bond.—An employer who has bonded individual employees by various bonds for specific amounts, may desire to insure all his employees under a commercial blanket bond. In view of the fact that he has already bonded employees for individual amounts he may obtain an excess commercial blanket bond.

The excess commercial blanket bond indemnifies the employer against that part of any and all direct losses which any one or more of the employees causes to the employer in excess of the amount or amounts covered under the primary fidelity suretyship. Covered losses are those committed by employees acting directly or in collusion with others, while the bond and specified primary fidelity suretyship are in force as to such employees.

EMPLOYEES COVERED.—Bondable employees under the excess commercial blanket bond are subject to similar qualifications and restrictions as the primary commercial blanket bond. On the effective date of the bond, the employees must be in the service of the employer and covered by name or position under the existing primary fidelity suretyship listed in the bond. Requirements may likewise be met if, at any time during the term of the bond, the employees are in the service of the employer and covered by name or position under the primary fidelity suretyship or under additional primary fidelity suretyship taken after the excess commercial blanket bond in a company agreed upon in writing between the employer and the surety.

DUTIES OF EMPLOYER.—The employer must throughout each year of the bond term carry under the primary fidelity suretyship not less than the amount agreed upon to be carried under the specific fidelity surety on each employee at the beginning of the year.

In case a successor is named during any premium year for any employee, the insured must in the balance of the period carry under specific fidelity suretyship on the successor not less than the amount carried on the employee so succeeded.

If during any premium year the employer covers, under the primary fidelity suretyship, any natural person but not as the successor of an employee, and desires that person to be covered

under the excess bond, the employer must carry under specific primary fidelity suretyship on that person throughout the remainder of the premium year not less than the amount agreed upon in writing between the employer and the surety.

If the employer reduces the amount of the primary fidelity suretyship required by the bond to be carried on any employee, the surety is liable on account of loss caused by that employee, only in case such loss is in excess of the amount so required to be carried, and then for not more than such excess.

If the employer increases the amount of primary fidelity suretyship required by the bond to be carried on any employee, the surety is liable on account of loss caused by that employee after the date of increase, only in case the loss is in excess of the increased amount, and then for not more than that excess.

LIABILITY LIMITS.—If the specific primary fidelity suretyship gives coverage or indemnity against losses caused by acts or defaults broader than larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction, willful misapplication, or other fraudulent or dishonest act, the excess commercial blanket bond covers only excess losses under the primary fidelity suretyship through larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction, willful application, or other fraudulent or dishonest acts.

If the primary fidelity suretyship limits liability for loss to the loss of certain designated classes or kinds of property, then the excess commercial blanket bond provides coverage only in case of loss of such designated property, and then for not more than the excess.

SETTLEMENT.—Any sum paid in settlement of any loss under the bond must be deducted from the amount of the bond. The provision governing the settlement of any loss and reinstatement of the amount is similar to that of the primary commercial blanket bond.

If any reimbursement is obtained or recovery is made by the employer or the surety on account of any loss covered under the bond, the net amount of the reimbursement or recovery, after deducting the actual cost of obtaining or making the recovery or reimbursement, is applied to reimburse the employer in full

for that part of the loss in excess of the aggregate of the amounts of all bonds, insurance and indemnity covering the loss.

ENDORSEMENT.—The bond may be endorsed to eliminate the requirement for an additional premium as in the case of the primary commercial blanket bond.

Blanket Position Bond.—This bond is issued for a stipulated amount for the defalcation of any one employee. Employees are defined as in the commercial blanket bond.

The company will indemnify up to the specified amount for losses resulting from fraudulent or dishonest acts on the part of any employee of the insured. If, for example, the bond was written with a limit of \$2,500 and the employer had 60 employees, the potential liability of the company would be $60 \times \$2,500$ or \$150,000.

In case a loss is alleged to have been caused by the fraud or dishonesty of one or more of the employees, and the insured is unable to designate the specific employee or employees causing the loss, the company is nevertheless liable. The evidence submitted, however, must reasonably establish that the loss resulted from the aggregate fraud or dishonesty of one or more of the employees. The liability of the company for any such loss cannot exceed the amount of indemnity carried on any one of the employees.

SALVAGE.—In the event a loss on account of any one employee exceeds the indemnity on an employee, the underwriter is entitled to participate in any salvage or recovery only after the insured is fully reimbursed for the excess loss.

EXCESS INDEMNITY ENDORSEMENT.—Since each employee under a blanket position bond is covered for the same amount up to the face amount of the bond, it may be necessary to cover employees in some positions for higher amounts. This may be done by the excess indemnity endorsement, which states the positions to be insured, the location and the total number of employees in each position and the amount of excess indemnity on each employee.

The endorsement contains the following provisions:

1. The amount of excess indemnity on the employees performing the duties of the specific positions (which are covered by the bond) is the amount set opposite the names of those positions respectively in the endorsement.

2. The liability of the company on account of any one employee in any one or more of such positions (in the original or in an increased or decreased amount) cannot exceed the largest single amount of indemnity on any one position occupied by such employee.

3. No excess losses are recoverable under the bond or endorsement unless caused by an employee who has been identified as having caused such loss.

2. Bankers' and Brokers' Blanket Bonds.—Analysis of fidelity bonds indicates that the company's liability covers general dishonest acts of employees. Banks, brokers, and similar financial institutions may desire coverage in a single instrument against contingencies to which their businesses are peculiarly subject. These contingencies include losses resulting from robbery, burglary, larceny, hold-up, and forgery and may be covered by various forms of bankers' and brokers' blanket bonds.

Bankers' Blanket Bonds.—The various forms of bankers' blanket bonds may cover the insured bank against loss of money or securities under the following circumstances subject to the limitation of the various special bond forms:

1. Through dishonest act of any of their employees, whenever committed, and whether committed directly or by collusion with others.
2. Through robbery, burglary, theft, hold-up, destruction, misplacement, or mysterious unexplained disappearance while the property is within any of the offices covered under the bond, whether accomplished by or without violence, and with or without negligence on the part of any of the employees.
3. Through robbery, hold-up, or theft, misplacement or mysterious disappearance by any person while the property is in transit and in the custody of any of the employees, or

through negligence on the part of the employees having custody of the property while in transit.

4. Through forgery.

Brokers' Blanket Bond.—Brokers' blanket bonds are intended to meet the needs of brokers in the same way as bankers' blanket bonds serve banks and other financial institutions. Losses may be covered similarly as in the bankers' blanket bonds. Coverage may include loss resulting from fraudulent trading in the insured's name or customer's name whether the account is genuine or fictitious.

3. Forgery Bonds.—The use of commercial instruments such as checks and notes has tempted people to forge signatures of others and thereby obtain money unlawfully. This may cause a loss to the one whose signature has been forged or to a bank or an innocent third party. To protect against the hazard, forgery bonds were introduced, guaranteeing the reimbursement of loss caused by the forgery of the maker's name or payee's name as endorsed, or the raising or the altering of any negotiable paper which was supposed to have been issued by the insured. Possible losses from forgery are easily demonstrated by :

1. The increasing use of negotiable instruments, particularly the bank check, increases the danger and volume of forgery losses.

2. If a forged instrument is presented to a bank and is paid by the bank, it does not necessarily follow that the bank is liable for the loss. Facts may be adduced indicating that the forgery loss results from negligence on the part of the depositor. In order to determine the liability of the bank, a lawsuit is necessary, involving expenses and the possibility of judgment being rendered against the depositor.

3. A number of check writing devices to prevent alteration have been introduced, such as machines for indenting typewritten words and figures on the checks. Special paper and acid proof inks are commonly used. Despite these devices, alteration continues, though an expert is required to effect the alteration.

Protection against losses from forgery is achieved by the use of various forgery bonds.

The following forgery bonds will be discussed: (a) depositors' and commercial forgery bonds, (b) bankers' blanket forgery and alteration bond, and (c) family forgery bond.

Depositors' and Commercial Forgery Bond.—The depositors' and commercial forgery bond provides two coverages. The depositors' section protects the insured against loss on account of his own outgoing commercial instruments. The second or commercial section covers the insured against loss resulting from the acceptance of commercial instruments issued by others. This bond is issued to investment banking firms, stock brokers, and corporations, partnerships or individuals engaged in commerce.

COVERAGE UNDER DEPOSITORS' SECTION.—The insured is protected against loss resulting from forgery or alteration of checks, drafts, promissory notes, bills of exchange and other written orders or promises to pay drawn by, on, or as a direction to the insured. Similar coverage applies when these instruments are purported to have been drawn by on or at the order of an authorized representative of the insured.

Coverage also extends to checks and drafts drawn in the name of the insured, when payable to a fictitious payee and endorsed in the name of the fictitious payee. This is true whether or not this endorsement constitutes a forgery under the laws governing the transaction.

Furthermore, the company is liable for loss on any check or draft provided in a face-to-face transaction with the insured by an impersonator, drawn payable to the person impersonated and endorsed by anyone other than the latter. This is true irrespective of the laws governing forgery.

In addition to these coverages, the company will indemnify any bank in which the insured carries a checking or savings account against forgery or alteration of instruments paid or cashed by the bank. Such losses are covered, however, only under the following conditions: (1) The insured is entitled to priority of payment over losses sustained by the bank. (2) The company's liability to the bank for such losses is deemed a part of and not in addition to the liability as set forth in the

depositors' section of the policy. (3) Losses whether sustained by the insured or by the bank are paid directly to the insured in his own name.

In the event that the surety consents to the defense of any suit brought against the insured or the bank on account of refusal to pay allegedly forged or altered instruments, legal expenses incurred by the insured or bank will be construed as part of the company's liability but not as an addition thereto.

COVERAGE UNDER COMMERCIAL SECTION.—The surety is liable on account of forged or altered instruments purporting to have been made or drawn by an existing person, firm, corporation, or public body received by the insured for personal property sold or services rendered. This liability is limited to 75% of the insured's interest in these instruments. The insured's interest is determined by the following: (1) the amount purporting to have been paid to the insured for personal property sold or services rendered; (2) the amount of cash delivered against such instruments over and above the amount paid for personal property or services.

EXCLUSIONS.—The bond does not cover losses resulting from forgery or alteration of the following instruments:

1. Registered or coupon obligations purporting to have been issued by the insured, or any coupons attached or detached therefrom.
2. Travelers' checks in whatever form drawn.
3. Cablegrams, telegrams, radiograms, and similar instruments.
4. An instrument drawn with a lead pencil, other than an indelible pencil.
5. Any instrument received by insured in purported payment for property sold and delivered on credit.

SALVAGE PROVISION.—If the insured or bank suffers a loss in excess of the amount receivable under the depositors' section of the bond, any salvage less collection expense belongs to the insured or bank to the extent of the excess. The balance, if any, goes to the surety.

When the insured suffers a loss under the commercial sec-

tion of the bond, any salvage, less collection expense, is divided between the insured and surety in such proportion that the company's net loss after deducting salvage will be 75% of the total loss.

ENDORSEMENTS.—The special requirements of stock brokers, investment banking houses, and grain dealers are met by endorsements.

STOCK BROKERS AND INVESTMENT BANKERS.—A rider attached to the bond when issued to stock brokers and investment banking houses extends the coverage for the commercial section of the forgery bond to include loss on account of the forgery or alteration of checks and drafts drawn or purported to have been drawn by an existing person, firm, corporation or public body for the following purposes: (1) collateral security, (2) maintenance of margin account or credit balance and (3) exchange for collateral surrendered.

The surety's liability in no event exceeds the amount of such forged instruments, the amount of insurance carried on the office, or the value of collateral surrendered whichever is the smallest. The value of collateral is determined by its closing market price on the day next preceding discovery of the loss.

GRAIN DEALERS.—When the depositors' and commercial forgery bond is written for grain companies, losses resulting from forgery of grain tickets, bin tickets, scale tickets or similar instruments issued by the insured may be covered by endorsement. The endorsement provides that there is no liability for alteration of any instrument drawn with a lead pencil, other than an indelible lead pencil, excepting grain tickets, bin tickets, scale tickets, and similar instruments.

Bankers' Blanket Forgery and Alteration Bond.—This bond is available for banks and provides coverage similar to the commercial coverage of the depositors' and commercial forgery bond in connection with the payment of commercial instruments of others than the bank which is the insured.

The bond protects the bank against loss through payment:

1. Of any check, certified check, or draft drawn upon the insured, upon which there had been forged, as the drawer or

maker thereof, the signature of a depositor of the insured or that of any person whose signature such depositor has instructed the insured to recognize as that of the depositor.

2. Of any check, certified check or draft drawn upon the insured by a depositor which had been raised or otherwise altered, or upon which the signature of any endorser had been forged.

3. Of any promissory note, accepted draft, and domestic trade or bankers' acceptance which is actually paid by the insured out of funds on deposit to the credit of the principal debtor, and upon which there had been forged, as the drawer, maker or acceptor, the signature of the depositor of the insured or that of any person whose signature the depositor has instructed the insured to recognize as that of such depositor.

4. Of any promissory note, accepted draft and domestic trade or bankers' acceptance which has been raised or otherwise altered or upon which the signature of an endorser has been forged.

5. Of any certificate of deposit, draft, or bankers' acceptance purporting to have been issued, accepted or made by the insured, upon which there had been forged the signature of any person duly authorized to sign certificates of deposit or to accept drafts or make acceptances for the insured.

6. Of any certificate of deposit, draft, or bankers' acceptance issued, accepted, or made by the insured which had been raised or otherwise altered, or upon which the signature of any endorser had been forged.

The bond also covers losses for the following:

1. Cashing at or through any of its offices covered under the bond, of any check or draft drawn upon any bank which bears the forged signature of any depositor of the insured as endorser.

2. Payment by the insured, or its depository of any check or drafts drawn by the insured upon itself or its depository, which had been raised or otherwise altered, or upon which the signature of an endorser had been forged; or upon which there had been forged the signature of any person duly authorized to sign checks and drafts for the insured.

LIABILITY LIMITS.—The company is liable under the bond for loss on account of any instrument covered under the bond only in case such loss is in excess of a specifically stated amount after deducting all recoveries, and then for not more than the excess.

EXCLUSIONS.—The bankers' blanket forgery and alteration bond does not cover losses occurring under the following circumstances :

1. Paying, cashing or extending credit upon the faith of travelers' checks in whatsoever form drawn.
2. Any loss in connection with any savings accounts.
3. Forging, raising, or altering any instrument with the connivance or collusion of any of the directors, whether the loss is sustained by the insured or depository.
4. Raising or altering of any instruments if drawn with a lead pencil other than an indelible lead pencil.

ENDORSEMENT.—By endorsement the bankers' forgery and alteration bond may be extended to cover forgery and alteration losses in connection with the following :

1. Savings accounts.
2. Checks or drafts purporting to have been certified by the insured.
3. Return of United States securities upon surrendering to the bank a receipt or certificate of deposit issued by the insured.
4. Delivery of any instrument covered in an interim receipt issued by the insured.

As a result of this endorsement, the blanket forgery and alteration bond in effect provides wide coverage for the bank's own commercial instruments as well as those of others.

Family Forgery Bond.—The family forgery bond is designed to protect the named insured and his wife and children residing permanently with him at his specified address. The bond affords coverage essentially of the insured's personal affairs.

As in other forgery coverages, the family forgery bond pro-

protects the insured against loss resulting from the forgery or alteration of any instrument drawn or made or purporting to have been drawn or made by or upon the insured or by the insured's agent. This coverage includes checks payable to and endorsed by fictitious payees, whether or not the endorsement constitutes forgery under the governing law. Checks procured in face-to-face transactions with the insured by those impersonating others and wrongfully endorsed are likewise covered.

The bond also covers the giving of values and extensions of credit in good faith for stock certificates and negotiable instruments which are forged, counterfeited, raised, otherwise altered, lost, or stolen. Instruments acquired under forged, raised, altered, or lost transfers, assignments, bills of sale, guarantees, or endorsements are likewise covered.

A third coverage is provided for the acceptance in good faith of counterfeit United States paper currency. The company's liability is here limited to \$50 for counterfeit money accepted in one transaction. The aggregate limit is \$100.

EXCLUSIONS.—The family forgery bond does not cover the alteration of bonds which have been drawn up with a lead pencil, other than an indelible lead pencil. Losses resulting from the dishonesty of any insured or incurred in connection with the insured's business are likewise excluded. While the family forgery bond is limited to the family affairs of the insured, it does cover acts of natural guardianship.

4. Fraud Bonds.—This group of bonds is designed to protect retail merchants against forgery losses and other specified hazards subject to a limit for each hazard.

The various bonds will be considered under the following classifications: (a) single fraud bonds, (b) single merchants' protective bonds, and (c) crime protective bonds.

Single Fraud Bond.—One type of single fraud bond provides \$1,000 liability for the following coverages:

1. Larceny and embezzlement coverage indemnifies the insured for loss of money, merchandise and personal property, owned by the insured, occurring upon the premises, occasioned by larceny or embezzlement committed by any of the insured's

employees, identified by name as responsible for the loss, the aggregate liability for all losses not to exceed \$100.

2. Robber within premises coverage indemnifies the insured for loss of money, merchandise and personal property, owned by the insured, occasioned by robbery from the insured, or from an employee, occurring upon and while the premises are open for business. The aggregate liability for all such losses is limited to \$150.

3. Robbery outside premises coverage indemnifies the insured for loss of money, merchandise, and personal property, owned by the insured, occasioned by robbery from the insured, or from any employee, while engaged in the ordinary course of the insured's business outside of the premises but within the United States or Canada. The aggregate liability for all such losses is limited to \$150.

4. Safe burglary coverage indemnifies the insured for loss of money, merchandise and personal property, owned by the insured, occasioned by felonious abstraction of such property from within a safe in the premises, or while located elsewhere after removal by burglars, by any one making felonious entry into the safe when its doors are duly closed and locked by at least one combination or time lock. The entry must have been made by actual force and violence of which there are visible marks made by tools, electricity, explosives, gas or other chemicals upon the exterior of all of the doors, if entry is made through such doors, or otherwise upon the exterior of the top, bottom or walls of the safe.

Safe burglary coverage also includes any damage to safe by forcible opening, or attempted opening. The aggregate liability for safe burglary coverage is limited to \$150.

5. Counterfeit paper currency coverage indemnifies the insured for loss through the acceptance in good faith in the regular course of business by the insured or by an employee, of counterfeit United States paper currency. The liability for counterfeit United States paper currency is limited to 50% of the face amount thereof and in the aggregate cannot exceed \$100.

6. Kidnapping coverage indemnifies the insured for loss of

money, merchandise and personal property, owned by the insured in the event that the insured, or an employee, while outside the premises and after the premises are closed for business, is compelled under threat of violence, to return and admit others to the premises. The kidnapping coverage also applies when the insured or his employee is forced, while detained forcibly elsewhere, to furnish information for or means of gaining admittance to the premises. The surety is liable provided the loss is occasioned by the stealing of such property from within the premises before being opened on the next succeeding business day for the regular transaction of business. The aggregate liability for kidnapping coverage is \$100.

7. Incoming check coverage indemnifies the insured for 50% of any loss through exchanging, in good faith, merchandise, service, or money for the following checks and drafts, which are not paid upon presentation :

- (a) Any check drawn, or purporting to have been drawn, on a bank located in a town or city within 50 miles of the town or city in which the premises are located.
- (b) Any draft drawn, or purporting to have been drawn, upon itself by a firm or corporation located in a town or city within 50 miles of the town or city in which the premises are located.
- (c) Any draft drawn, or purporting to have been drawn, by a public body upon itself.

The incoming check coverage excludes post-dated checks, checks and drafts cashed as an accommodation or given in payment of open accounts or pre-existing indebtedness, travelers' checks in whatsoever form drawn, and post office and express money orders. The liability on any one check or draft is limited to \$50 and the aggregate liability for all losses under this coverage does not exceed \$100.

8. Post office and express money order coverage indemnifies the insured for loss through exchanging, in good faith, merchandise, services, or money, for any post office money order or express money order, issued or purporting to have been issued within the United States or Canada by any post office or express

company, if such money order be not paid upon presentation. The liability on any one money order is limited to \$50 and the aggregate liability for all losses under this coverage to \$100.

REWARD CLAUSE.—A reward of \$50 will be paid to any persons, except the insured and his officers or partners, for the capture, or for information resulting in the arrest, of persons subsequently convicted of committing or attempting to commit either burglary or robbery upon the premises, during the term of the bond. Not more than one reward will be paid on account of all such crimes committed during the term of the bond. The surety's decision as to persons entitled to any reward is final.

Single Merchants' Protective Bond.—This bond provides \$1,000 liability and contains the same provisions as the single fraud bond respecting coverage for larceny and embezzlement, robbery within premises, robbery outside premises, safe burglary, counterfeit paper currency, and kidnapping. For each of these six individual coverages, however, a limit of \$100 is set.

ADDITIONAL COVERAGE PROVISION.—The surety assumes liability up to a limit of \$100 for all damage to the insured's merchandise and fixtures caused by felonious opening or attempted opening of any safe by means of explosives of which there are visible marks. Fire loss, however, is excluded.

A second additional liability assumed by the surety is for damage to doors, locks, metal screening or bars caused by actual or attempted forcible entry into the premises while not open for business. The aggregate liability limit for this coverage is \$100.

A third coverage is for damage to cash registers owned by the insured occurring under the circumstances as in the previous two coverages. Here again the liability limit is \$100.

REWARD.—As in the fraud bond, there is a provision for a reward of \$50 for burglary and robbery convictions. No more than two rewards will be paid for crimes committed on any calendar day and not more than \$100 during the policy term.

Crime Protective Bond.—The crime protective bond resembles the single fraud and single merchants' protective bonds.

A total coverage of \$3,000 is provided, including the following individual coverages :

Type	Aggregate
Larceny and embezzlement.....	\$200
Robbery within premises.....	300
Robbery outside premises.....	300
Safe burglary.....	300
Post office and express money orders.....	300
Counterfeit paper currency.....	250
Kidnapping coverage.....	250
Incoming checks.....	250

The limit per post office or express money order is \$100. The same limit applies for any one incoming check. The company's liability for checks is further limited to 50% of the face amount and such checks must be drawn on banks within a 100-mile radius from the city or town in which the premises are located.

The crime protection bond also includes the following coverages found in the merchants' protective bond, but with higher liability limits :

Type	Aggregate
Merchandise and fixtures.....	\$250
Doors, bars, and screens.....	200
Cash registers.....	200

REWARD CLAUSE.—The \$50 reward clause found in the fraud bond also appears in the crime protective bond. Only one reward, however, will be paid for convictions of crimes occurring during one day and not more than \$200 for the entire policy period.

5. Contract Bonds.—The various types of bonds in this group are essentially financial guarantees. They may be used to guarantee the price stipulated for construction work or supplies. The bonds may also be used to guarantee payment for labor and material. Included in this group are construction and supply bonds. Lost instrument bonds will also be discussed.

Construction and Supply Bonds.—The following bonds are included in this group: (a) completion bond, (b) proposal bond, and (c) supply bond.

CONTRACT BOND.—A completion bond is usually given in connection with construction work for a governmental body and by direction of statute. Whenever a public building is to be constructed, the practice is to advertise for bids. In some cases, the bid must be accompanied by a bond which is known as the proposal bond, guaranteeing that the bidder will perform the contract in case his bid is accepted. After bids are opened and the successful bidder is announced he must file a completion bond. In case of default the surety will pay to the obligee the difference in money between the amount of the bid of the principal and the amount for which the obligee may legally contract with another party to perform the work if the latter amount be in excess of the former.

The completion bond issued by a surety company is a guarantee that the successful bidder will complete the contract in accordance with the plans and specifications and for the price mentioned.

PROPOSAL BOND.—An example of the proposal bond is the federal government bond designated as the Bid Bond-Construction or Supply-Standard Government Form, which provides that the principal has submitted the bond as of a specified date and that the obligation to pay the penal sum is void under the following circumstances :

1. If the principal does not withdraw the specified bid within the period specified after the opening of the bid ; or if no period is specified, within 60 days after the opening of the bid, and if, within the period specified or, if no period is specified, within 10 days after the prescribed forms are presented to him for signature, enters into a written contract with the government, in accordance with the bid as accepted, and if the principal gives bond, as may be required, for the faithful performance and proper fulfillment of the contract.

2. Or in the event of the withdrawal of the bid within the period specified, or in the event of the failure to enter into the contract and give such bond within the specified time, if the principal pays the government the difference between the amount specified in the bid and the amount for which the gov-

ernment may procure the required work or supplies, if the latter amount is in excess of the former.

Two completion bonds required by the government will be described in illustration of construction or supply bonds.

FEDERAL PERFORMANCE, CONSTRUCTION, OR SUPPLY BOND.—Attached to the bond is a contract which the principal has made with the government as of a specific date. Under the bond, the surety is liable, unless the principal performs all the following:

1. Terms, conditions, and agreements of the contract during the original term of the contract and any extensions of it that may be granted by the government, with or without notice to the surety, and during the life of any guarantee required under the contract.

2. Terms, conditions, and agreements of any authorized modification of the contract that may later be made, notice of which modifications to the surety is waived by the bond.

FEDERAL PAYMENT CONSTRUCTION BOND.—This bond is designed to protect persons supplying labor and materials. Under the bond, the surety is liable unless the principal promptly makes payment to all persons supplying labor or material as provided in the contract or in any modified agreement. Notice or modification to the surety is waived in the bond.

ANNUAL GUARANTEE BOND.—A special form of the supply bond is the annual guarantee bond. The practice of governmental bodies is to demand a bond where a business concern sells commodities constantly to the government. The bond guarantees that such goods will be delivered at the price mentioned in the contract. This form of bond is issued to those equipped to sell to the government particular supplies bid. An example of this bond is the Annual Guarantee Bond required by the State of New York.

ANNUAL GUARANTEE BOND—STATE OF NEW YORK—EXECUTIVE DEPARTMENT—DIVISION OF STANDARDS AND PURCHASE.—This bond is used when a bidder contemplates making proposals and accepting awards as made from time to time for furnishing supplies for the use of the State of New

York for which the Superintendent of Standards and Purchase may, by advertisement, in accordance with law, invite proposals and award contracts. It is felt desirable in the interests of both the state and the bidder that all such proposals and subsequent awards be covered by an annual guarantee instead of a separate proposal and a separate guarantee for each award.

COVERAGE.—In the case of every proposal made by the bidder, and accepted by the Superintendent of Standards and Purchase during the fiscal year ending on a specific date, the bidder agrees, if and when required, to enter into a formal contract with additional security for the full performance of the contract. If formal contract and additional security are not required, the bidder agrees, if required, to furnish such supplies, and faithfully fulfill the obligations of his proposal as accepted.

Should the bidder fail to enter into the formal contract, if required, or to furnish supplies without formal contract, if so directed by the Superintendent of Standards and Purchase, the surety guarantees to make good the excess price which the state may have to pay for supplies when bought in the open market or by contract with some other person.

The surety's total liability under this guaranty, however, is limited to a stated penal sum.

Lost or Destroyed Instruments Bond.—When checks and negotiable instruments are lost, the maker is naturally reluctant to issue a duplicate, for fear the original may be found and both cashed or collected. To protect against duplicate payment of settlement with the wrong party, a lost instrument bond may be obtained from a surety company.

BOND PROVISIONS.—This bond contains the following :

1. Representation of principal that he owns the missing securities.
2. Request of principal to the obligee for the issuance of duplicate instruments or for credit to the principal's account of the face amount involved.
3. Compliance of obligee or obligee's willingness to comply.
4. The surety's agreement to be liable unless the principal or any of his legal representatives, heirs, successors, or

assigns come into possession of the original securities. In that event, delivery of the original instruments to the obligee releases the surety from liability.

5. The surety's further agreement to indemnify the obligee against any valid or groundless claims or action and against any losses or expenses by reason of the mislaid securities or because of the issuance of duplicate instruments or crediting of the face amount of the originals.

LIABILITY OF SURETY.—The surety assumes these liabilities, irrespective of inadvertence, accident, oversight, or neglect of the obligee or of any of his officers, agents, or employees. Similarly, omission or failure of the obligee to contest the right of any applicant to receive payment, credit transfer, or delivery of the original or duplicate instrument does not release the company from liability.

6. License and Permit Bonds.—The various subdivisions of the government—federal, state, and local—have enacted laws to regulate certain types of business. The federal government, for example, imposes a tax on the importation of goods. An example of state regulation is the commission merchants' bond required by New York State. The plumbers' and auctioneers' bonds required by New York City are illustrative of the license and permit bonds required by cities.

Federal Permit Bond—Temporary Importation Bond.—In many instances a business may become liable for certain taxes such as custom taxes. The principal may desire to import certain goods temporarily and not for use in the United States. Permission to take goods without paying custom tax will be granted provided a bond is given to the federal government guaranteeing that the importer will observe the various federal requirements.

State License Bond—Commission Merchants' Bond.—This bond is needed when the principal has applied or is about to apply to the State Commissioner of Agriculture and Markets for a license to engage in the business of receiving farm products for sale on a commission basis.

Under this bond, the surety is liable unless the principal performs the following: (1) faithfully complies with the provisions of the Agriculture and Markets Law; (2) honestly accounts to consigners for all farm products received for sale on commission; (3) promptly pays all amounts becoming due for farm products received for sale on commission.

Local License and Permit Bonds.—As illustrations of the license and permit bonds required by New York City, the plumbers' and auctioneers' bonds will be briefly considered.

PLUMBERS' BOND.—This bond is used when the principal is to be permitted to make any excavations, opening or disturbance to the pavement or sidewalk in public places for the purpose of making necessary changes in connection with surface or sub-surface structures, pipes, sewers, or for any other purpose. The surety is liable unless the principal carries out the following:

1. Pays the city for the cost of repairs to pavement required by reasons of excavations or other disturbances to pavements as well as the cost of inspection of the work performed by the principal.
2. Complies with all ordinances relating to opening and excavating or otherwise disturbing pavements or in streets or in other public places.
3. Saves harmless and indemnifies the city from all claims for damages for injury to persons and property arising out of any act or omission of the principal or his agents performing any work or delivering any materials.
4. Properly refills and rams the earth, removes and restores to the satisfaction of the city the pavement removed or disturbed and repaves the same should the pavement, sidewalk, or curb settle or become out of order within six months after date of restoration of pavement.
5. Indemnifies the city for all costs and counsel fees and damages for accidents arising out of the acts or omissions of the principal.

AUCTIONEERS' BOND.—This bond is used in connection with the principal's application to the City of New York for a license to engage in the business and occupation of an auctioneer.

The surety is liable for the penal sum unless the bonded person and all persons in his employ comply fully with the terms, covenants, and conditions granted by the license, properly carry on the business of auctioneer, and observe all state and local city laws, ordinances, and resolutions of the Municipal Assembly of the City of New York, in full force or which may be adopted during the period of the bond.

7. Public Official Bonds.—When a citizen is elected to office, he may have occasion either to handle money which he may convert to his own use or to perform services which, if improperly performed, may cause monetary loss to a governmental body. To protect the governmental body a bond is required guaranteeing his faithful performance of all duties. These bonds are given by the surety company. The factors that the companies consider in determining the desirability of the risk are the following: (1) honesty of the official elected, his business experience, and financial standing; (2) whether the official can sign checks alone or with a countersignature; (3) methods of auditing the accounts.

In some states the law may permit the official to obtain the bond from private individuals. These individuals, in turn, may obtain a reindemnifying bond from a surety company. Generally, these reindemnifying bonds are more favorable than a bond given directly for the officer. The surety company, however, may limit its liability when issuing such a bond.

Types of public official bonds are: treasurers' bond, tax collectors' bonds, and federal officials' bond.

Treasurers' Bond.—In some localities, the treasurer may hold two positions. This presents a special danger in view of the inadequate accounting control.

Tax Collectors' Bond.—In some jurisdictions, a tax collector may be responsible for all the taxes, although all taxes have not been collected. Generally, a tax collector works without very much supervision and, therefore, the risk is very hazardous.

Federal Officials' Bond.—These bonds are issued for employees of the federal government who have occasion to handle

money. As a group, they are very desirable risks for the following reasons: (1) the government makes frequent audits of moneys collected; (2) the activities of the Secret Service are an incentive to honesty on the part of the federal employees so employed.

8. Court Fiduciary Bonds.—To protect assets of estates which come within the jurisdiction of a court, the fiduciary appointed to administer the estate is required to give a court (fiduciary) bond. The fiduciary is liable for any misfeasance resulting in a monetary loss to the estate. There are two types of fiduciaries: (a) fiduciaries who merely liquidate the trust estate—this type includes executors and administrators of estates, receivers, and trustees in bankruptcy; and (b) fiduciaries who preserve and invest assets of the estate—this class includes guardians of minors, committees for incompetent persons, and trustees appointed under a will or deed of trust.

ESSENTIAL CONSIDERATIONS.—The following factors are considered in issuing fiduciary bonds:

1. The fiduciary's character and financial ability and the question of his indebtedness to the estate.
2. The reputation of the fiduciary's attorney, which assists the company in determining the character of the fiduciary.
3. Whether or not the fiduciary is required to continue the conduct of a business.
4. Joint control of assets with the fiduciary. To protect themselves properly, the surety companies may demand joint control in most cases. In effect, it prevents any possibility of material loss to the estate. Incidentally, joint control benefits the heirs and the fiduciary. In order to avoid delay in the handling of minor matters, the surety company will permit the fiduciary to control a small amount of money without any joint supervision.

9. Court (Guarantee) Bonds.—There are many circumstances under which a plaintiff or a defendant in an action demands a privilege which may result in a monetary loss to the

opposing party. Such circumstances may be illustrated both by plaintiff and defendant actions.

A plaintiff may go to court and obtain in connection with various actions : (1) an injunction forbidding a defendant to do a certain act or to manufacture a certain article ; (2) an attachment of the defendant's property when the defendant is not within the jurisdiction ; (3) a replevin of goods which he claims belong to him ; (4) an appeal from court decision rendering a judgment against him.

The defendant may go to court and obtain in connection with various actions : (1) an order to dissolve an injunction obtained by the plaintiff ; (2) an order to discharge an attachment against his property ; (3) an order to discharge a replevin against his property ; (4) appeal from court decision rendering judgment against him.

To guard against improper use of the courts and to protect the opposing party, the law demands that a bond be given before such an action may be initiated. Generally, the company will issue plaintiff's bonds more readily than defendant's bonds. The company's liability if a plaintiff loses is usually limited to court costs. However, if the defendant loses, the company may be required to pay a substantial judgment. The probable liability of the surety company is therefore less when issuing a plaintiffs' bond than a defendants' bond. In view of this great hazard of defendants' bonds, collateral is demanded much more frequently in connection with such bonds.

Although the primary purpose of the court guarantee bond is to prevent delay and abuse in connection with legal rights, the use of these bonds has been increased because of their superiority over depositing money in the courts. Money deposited in the courts earns a low rate of interest and some difficulty may be encountered in obtaining its return, if the case is decided in the favor of the applicant. These limitations are avoided by use of court guarantee bonds.

CLASSIFICATION OF COURT GUARANTEE BONDS.—Common types of court guarantee bonds that will be briefly analyzed are : (a) order of arrest bond, (b) bail bond, (c) security for costs bond, (d) stipulation for value bond, (e) petitioning creditors'

bond, (f) sheriffs' indemnity bond, (g) bond to discharge mechanic's lien, and (h) appeal bond.

Order of Arrest Bond.—To obtain an order of arrest which otherwise would not be issued, the plaintiff must first furnish a bond guaranteeing court costs and damages sustained by the defendant.

Bail Bond.—Persons who have been arrested and duly admitted to bail may be released upon deposit of a bond with the court. The bond guarantees the following: (1) the defendant will appear and answer the charge in whatever court it may be prosecuted; (2) he will at all times render himself amenable to the orders and process of the court; (3) if convicted, he will appear for judgment and render himself in execution thereof; (4) if he fails to perform any of these conditions the surety will pay the sum fixed by the court.

Surety companies will usually not issue bail bonds for persons who have committed violent crimes or who are repeated offenders.

Security for Costs Bond.—In some cases a defendant has the right to require the plaintiff to furnish security for the payment of all costs that may be awarded by the court against the plaintiff. The plaintiff generally files in court a bond securing these costs.

Stipulation for Value Bond.—Where a libel has been filed against a ship, making it subject to seizure and putting it in custody of a marshal, the owner may file a bond releasing the vessel. This bond guarantees, if the libellant recover, the payment of any judgment plus interest and costs.

Petitioning Creditors' Bond.—Where a petition is filed for a bankruptcy adjudication and where an application has been made for the appointment of a receiver, the petitioners must file a bond. The bond guarantees that if the petition is dismissed, the alleged bankrupt will be paid all expenses, costs and damages.

Sheriff's Indemnity Bond.—A sheriff undertaking a doubtful seizure of property may require an indemnity bond from the

persons requesting seizure of the property, so that he may fully protect himself.

Bond to Discharge Mechanic's Lien.—A contractor or subcontractor to protect himself may place a lien against property for work and materials which have not been paid when due. When a mechanic's lien is filed, the owner of the building or the contractor discharging the mechanic's lien customarily files a bond for an amount sufficient to cover work and materials claimed to be unpaid and incidental costs.

Appeal Bond.—When a judgment is rendered against one of the parties to a civil action, before the right to appeal is granted, the court will demand security for the judgment and costs to stay execution. This is usually accomplished by filing an appeal bond with the court.

Rate-Making.—The basis for rate-making is not similar for all classes of bonds. For example, in the case of fidelity bonds, the premium revenue is the only fund out of which losses can be paid; on the other hand, there are large classes of surety bonds where the premium revenue constitutes but a small part of the total fund used for the payment of losses.

The principles underlying the rate-making for the first group bonds are similar to the principles underlying rate-making in the various insurance lines. However, in the field of surety bonding, the basis for rate-making assumes different aspects. The rate depends upon two separate and distinct funds out of which losses can be paid. The largest and most important of these funds should be the collateral furnished by the principal of the bond. The other fund is made up of the premium revenue of the bond.

Unfortunately, there are not standard rules as to the amount of collateral required for each bond. The amount of collateral depends upon the judgment of the underwriter. There is also the possibility that collateral which has been accepted may decrease in value through unforeseen conditions.

CHAPTER 24

TYPES OF INSURANCE CARRIERS

The business of insurance is conducted by six types of organizations: stock companies, mutual companies, reciprocals, Lloyd's, state, and self-insurance.

Stock Companies.—Like any other corporation, a stock insurance company is operated for the purpose of making a profit for its stockholders who have contributed to the capital and surplus. The outstanding features of this type of organization are as follows:

1. The insured is charged a definite premium, and in return the company agrees to pay all losses for which it is liable under the policy that has been issued.

2. If the premium income should be insufficient to pay all losses, the stock company cannot demand any further contribution from the insured. The company commences business with capital and surplus, and aims to increase its equity so as to eliminate any doubt concerning its ability to meet all future obligations arising under the policy.

3. The general aim of many companies is to transact business throughout the entire United States, and thus spread their risks as widely as possible.

4. In view of the fact that the stock company is primarily organized for the purpose of making a profit, the company is constantly seeking new fields of insurance in order to increase the premium income. Largely as a result of this incentive, stock companies in the United States have developed many of the branches of insurance conducted at the present time.

5. To avoid excessive premiums, extensive inspection service is maintained by stock companies which write property insurance. The primary purpose of this service is to prevent losses and, incidentally, to reduce rates.

6. Since the stockholders have large sums of money invested in the corporation, they require skilled management to protect not only their own interests, but the policyholder's as well.

Mutual Organizations.—The mutual organization is a corporation organized by a group of people who are also policyholders. There are many types of mutual organizations, the principal one being local fire insurance mutuals, factory fire insurance mutuals, casualty insurance mutuals, and life insurance mutuals.

LOCAL FIRE INSURANCE MUTUALS.—The local fire insurance mutual is organized in some county or town to protect a small group of owners against loss due to fire. In this type of mutual organization, the policyholders pay a portion of the premium in cash, and are subject to further assessments in case the premium received is insufficient to pay the losses and expenses. A modification of this plan is to require the members to pay a small cash premium to meet expenses and ordinary losses, and to give a premium note which is used in case the losses and expenses are in excess of the premiums that have been paid.

The outstanding advantage of this type of mutual is the fact that it operates in a restricted territory, under a management which knows the hazards that are assumed. The moral hazard is, therefore, inconsequential. On the other hand, in view of the small size of the organization, expert employees cannot be hired. Therefore, the primary object is to pay losses without serious scientific effort to prevent losses. Furthermore, since the organization operates in a restricted territory, it cannot obtain the benefits derived from wide distribution of risks. Some state laws prohibit this type of mutual from operating in the larger cities where there is a possibility of conflagration loss. Other state laws limit its operations to certain types of risks such as dwellings and farm buildings.

FACTORY FIRE INSURANCE MUTUALS.—The factory fire insurance mutual is designed to offer fire insurance protection to factories. In this type of mutual, members are required to pay premiums in excess of expenses and expected losses. At the

end of the year, excess premiums are refunded as dividends which frequently have been large.

The success of these organizations is attributed to the following factors:

1. Insistence that the primary purpose of the organization is to prevent losses.
2. Emphasis on inspection of risks and on high standards of construction.
3. Tendency to accept risks that do not present any conflagration hazard.
4. Careful underwriting of risks.

CASUALTY INSURANCE MUTUALS.—With the development of casualty insurance, mutuals have been organized to conduct certain branches of this business in the various states. These organizations, like stock companies are subject to regulation. Their dividends and reserves are closely regulated by insurance departments of various states in which they operate.

LIFE INSURANCE MUTUALS.—A creditable record has been achieved by mutual organizations in life insurance. This notable success is largely attributable to the use of scientific tables for rate determination.

In its operation the life insurance mutual follows the pattern of the stock life insurance company. Both generally employ agents to bring in new business. There is also a tendency for some stock companies to limit dividend payments to stockholders and in some cases to pay dividends to policyholders.

The outstanding features of mutual organization may be summarized as follows:

1. Any portion of the premium income which is not used to pay losses may be returned to the policyholders.
2. If the mutual organization is limited in members, the control of the organization is actually in the hands of the policyholders. As the organization grows larger, however, this control by the policyholders becomes theoretical. Because policyholders do not take an active part, control is in the hands of the manager who continues in office as long as dividends, in satisfactory proportions, are returned to the policyholders.

3. In some cases, mutual organizations obtain a favorable selection of risks. This advantage, however, may tend to disappear as the mutual organization becomes larger and operates over a broader field.

4. When mutuals do not employ agents and pay commissions, the expenses of these organizations may be lower than those of stock insurance companies. In that event, however, representatives of the mutuals must travel throughout the field for the purpose of securing new business and retaining the old business.

5. If the mutual organization is small, it is unable to spend sufficient sums of money to prevent losses. There is also a great risk on account of possible catastrophe, especially in the field of property insurance.

6. When premium income and accumulated surplus are insufficient to pay losses, policyholders of companies, other than those writing life insurance, are subject to assessments. In certain states, however, mutuals are permitted to issue non-assessable policies for property insurance, after accumulating sufficient surplus as required by statute.

7. Undue emphasis may be placed upon low cost in mutual organizations, little attention being given to prevention of losses.

8. Since the policyholder has a direct interest in the organization, the moral hazard may be minimized.

9. Policyholders are entitled to dividends only when declared out of surplus while their policies are in force. Once they give up membership, policyholders forfeit their interest in surplus and right to receive dividends.

Reciprocals.—This form of organization resembles the mutual property insurance company in operation. A reciprocal is an organization of individuals who agree to act as insurers of one another. It is, in effect, a joint venture conducted without profit. The entire business is placed in the hands of an individual called the attorney-in-fact, whose duty is to collect the premiums, pay the losses, and conduct the business. The attorney-in-fact is usually paid a percentage of premiums for his services. The outstanding features of this organization may be summarized as follows :

1. The business is conducted at cost, since any balance which remains is returned to the policyholders.

2. The net cost of running the business is determined annually. Theoretically, any surplus or deficiency is then prorated among the policyholders, each account being debited or credited for its respective share. Any balance which is credited to the policyholder must be returned to him. This practice is in marked contrast to that followed by mutual companies. As has already been noted, policyholders of the latter are entitled to dividends only while they continue their membership.

3. Since the policyholder has a direct interest in the organization, the moral hazard may be minimized.

4. This business may be run at a lower cost than the stock company since commissions may not be paid.

5. With low cost of insurance as a primary objective, there is a tendency to skimp on expenditures for loss prevention.

6. If the reciprocal is limited in membership, adequate selection of risks cannot be obtained.

7. Unless there is a sufficient premium income, the organization may become insolvent as a result of catastrophe loss.

Lloyd's.—This organization, of which Lloyd's of London is the prototype, is formed by a number of individuals who agree to accept risks individually for an agreed premium. It is therefore similar to a stock organization in that the premium accepted is the entire amount that the insured must pay. A member suffers a deficit if losses and expenses are in excess of the premium income and makes a profit if the premium is more than sufficient to pay losses and expenses.

The business is not confined to any particular branch of insurance such as fire insurance or marine insurance but the members may accept all types of risks. In fact, the business accepted by Lloyd's in the United States consists of a great many risks which American companies cannot write. As with stock insurance companies, the risks are placed with members of Lloyd's by brokers. The broker who is trying to place the risk prepares a proposal of insurance stating the amount of insurance he wants. This proposal is then signed by various underwriters who are members of Lloyd's. Each underwriter

initials the agreement for whatever proportion of the risk he wishes to assume. The policy which is issued contains the percentage of the risk assumed by the various members who have signed the proposal. In practice, a group of underwriters will appoint one individual to act as their agent, thus eliminating the necessity of obtaining the signature of each of the underwriters.

Since each member is liable only for an agreed portion of the risk, policyholders cannot collect from a signer of the policy in the event of his insolvency. To meet this hazard, several requirements have been imposed for the protection of policyholders; some of which are: (1) Each underwriter is required to put up a minimum deposit or guarantee. (2) The underwriter agrees that all premiums and investments must be placed in trust for the payment of losses and expenses. (3) The accounts of each underwriter must be audited annually in order to ascertain whether he can meet his obligations.

In America, Lloyd's organizations have not been developed very much. Any insured who accepts a Lloyd's policy must remember that if the organization is not permitted to do business in his state he will have to sue the members in the state in which the Lloyd's is organized unless there is an agent in the state in which the insured resides. In addition, he will have to sue each one of the individuals. Therefore, if 30 underwriters have signed the policy, he will have to commence 30 suits.

State Organizations.—The Social Security Act has witnessed the active participation of the federal and state governments in the business of old age and unemployment insurance. In addition, there is a tendency for the United States Government and state governments to enter into the business of insurance. The United States Government operates the War Risk Insurance Bureau providing life insurance and disability benefits for soldiers and sailors. State funds have been organized to write workmen's compensation insurance and hail insurance on farmer's crops. These funds may be monopolistic or competitive. The outstanding features of state funds may be summarized as follows:

1. In some cases they operate at a lower cost than private organizations.

2. In the past the tendency has been to provide for the payment rather than for the prevention of losses.

3. In many cases a portion of the risk is indirectly assumed by the citizens of the state. The organization may be relieved from paying taxes on its premium income, or is given the use of state buildings and employees of other departments.

4. The state funds are mutuals, collecting premiums, paying losses and expenses, and returning dividends if there is a surplus.

5. In some cases the state funds are not permitted to assess policyholders. In such cases it would seem that if there is any deficiency, this sum must be provided by taxation.

Self-Insurance.—Business enterprises of great size and financial strength are frequently concerned with the cost of insurance. Where plants are scattered and more or less isolated and the danger of catastrophic losses is minimized by the nature of the business and construction of properties, a number of concerns feel that they are strong enough to bear their own losses. Organizations which thus carry their own insurance are known as self-insurers.

The essential features of self-insurance plans may be summarized as follows:

1. The organization creates a reserve fund out of which losses are paid. The successful operation of the fund depends upon the ability either to set aside a sufficiently large reserve fund initially or gradually to build up these funds to meet the future obligations.

2. In view of the primary interest, the moral hazard is practically eliminated.

3. If the organization is sufficiently large, adequate money can be spent for the prevention of losses.

4. If the business is widely distributed, the expenses necessary to conduct the business may be so large that savings may be improbable.

5. In order to safeguard against catastrophe losses, reinsuring agreements may be obtained.

CHAPTER 25

UNDERWRITERS' ASSOCIATIONS

Need for Underwriters' Associations.—Formerly, one who desired to purchase an insurance policy went to the companies and obtained different rate quotations. The prospective policyholder would thus play one company against another. The companies, in the competition for premium volume, sometimes lost sight of the actual cost of the insurance; rate wars were engaged in; and the result, for many companies, was liquidation. Gradually, various companies began to realize that co-operative effort would benefit them. Thus rate-making organizations were formed. The essential motive in the formation of these organizations was to protect the business of insurance, in which companies had become insolvent on account of writing the policies at inadequate rates. The organizations have expanded so that they render, in addition to rate-making, numerous other services absolutely essential to the conduct of the business. With two important exceptions, life insurance and marine insurance, they function in practically all lines.

Objections to Rate-Making Associations.—Against joint rate-making, objections have been raised. It is contended that equitable rates may be obtained by competition. In considering this theory, it is well to take into account the following facts:

1. If rate competition is permitted, the tendency is to favor the influential policyholder by offering him lower rates. When the rate charged to the influential policyholder is inadequate, the premiums charged to other policyholders will be unduly increased to make up for deficiencies.

2. Every time an insurance company sells a policy, a transaction occurs which affects the public. The insurance sale differs from the sale of a commercial product such as clothing. The buyer of clothing is not concerned with the future sol-

vency of the seller ; the transaction is completed with the clothing is sold. The buyer of insurance, on the other hand, is concerned with the future solvency of the seller. If unrestrained competition is permitted, the insurance company may not be able to collect sufficient premiums to pay expenses and losses incurred under the policy. Insurance is purchased to produce security. Unrestrained competition may instead produce insecurity.

3. The statement is sometimes made that, as equitable results are obtained by permitting competition among commercial concerns selling a given product, so equitable rates may be effected by permitting competition among insurance companies. There is this difference, however, between the wholesaler and the insurance company: The wholesaler knows at the time of sale exactly what his article costs, and will not, except in rare instances, sell at a loss. The underwriter cannot foretell whether or not loss will be suffered on a certain policy ; and, if he desires, under strenuous competition, to obtain the business of a certain individual, he will make a rate based upon a probable favorable experience. This optimism, coupled with inability to forecast losses in the future, cultivates the tendency to quote rates below cost—a temptation less common to the business man, who knows the cost of his article before selling.

Furthermore, if unrestrained competition in insurance is permitted, the result will be monopoly. The weaker companies will ultimately be liquidated ; the few surviving companies will combine ; the cost, in the absence of protective legislation, will eventually be greatly increased. Insurance companies which took part in rate wars soon realized that adequate rates must be obtained for self-preservation. This realization has led to cooperation and formation of rate-making organizations wherever the law permits.

Conclusions of Legislative Investigation.—Various state legislative committees have investigated the subject of joint rate-making by insurance companies. The conclusion reached by an investigation conducted in one state may be summarized as follows :

1. There is no one company which has sufficient experience to make adequate rates. Therefore, adequate rates may be made only by cooperation among various companies writing the same line of insurance.

2. To avoid favoring policyholders with undue influence, combinations to make and maintain rates should be permitted.

3. State regulation of rates made by combinations of insurance companies will produce beneficial results for the companies and for the public.

State Legislation.—Such has been the enormous growth in rate-making organizations, that many lines of insurance written by fire insurance companies and casualty insurance companies are now under the jurisdiction of rate-making organizations. The growth of these organizations, resulting in the first place from the activities of the companies, has been accelerated by the introduction of state rating laws. In various states, statutes have been enacted requiring the supervision of rates, policies, and underwriting practices, by the state superintendent of insurance. In certain states, the statutes have recognized the formation of organizations to serve as agents of subscribing insurance companies in rate matters.

Types of Underwriters' Associations.—Underwriters' organizations may be either national or local associations.

The main purpose of the national association is to act in an advisory capacity to the local associations. The usual practice is for the national association to prepare the rates, make the underwriting rules, prepare policy forms, and carry on national educational campaigns designed to reduce losses. The main purpose of the local associations is to establish and supervise rates, commissions, and underwriting practices in a restricted territory, in general accord with the national association program.

The national associations are becoming so important that they are assuming many functions performed by the local associations. The membership in a national association usually consists of the various stock insurance companies writing the particular line over which the association has jurisdiction. Mutual

companies also have their own associations for certain lines. In some cases membership includes mutual and reciprocal companies and state funds, as well as stock companies.

Functions.—Services rendered at the present time by the various associations are extremely varied. The more important of the cooperative functions that may be performed by these organizations may be summarized as follows.

RATE-MAKING.—The members send to the central association statistics covering the premium income and loss expense by lines of insurance. Rates are then determined on the total experiences of the various member companies. In addition to the preparation of rates, some organizations have prepared merit rating schedules to be applied to individual risks, with the provision that they must be applied equally and fairly to all risks possessing the requirement for merit rating. Examples are afforded by the schedules used to determine the rate for the individual policyholder in fire insurance and the experience rating plan used in workmen's compensation insurance.

REQUIREMENT FOR UNIFORM COMMISSIONS TO AGENTS AND BROKERS.—The associations usually insist that all companies in the same line of insurance pay the same amount of commission to agents or brokers. They require also that the agent or broker adhere to the rates promulgated, and they oppose any tendency on his part to rebate commissions. In some cases, associations have insisted that each agent or broker agree to abide by the rules of the associations before any member-company can pay commission to him. The practice employed by any company to increase business by paying excess commission and so reducing the premium income available for losses is also opposed by the association. Furthermore, their insistence in certain cases on certification of brokers and agents has served to exclude men unfit to represent the company in dealing with the public.

ECONOMICAL OPERATION.—Essentially, companies which write the same form of insurance perform the same type of operations. This is especially true in connection with the prepa-

ration of rates, inspection of risks, and adjustment of losses. The work of the central organization in preparing rates makes it unnecessary for each company to hire employees to determine a set of rates. Likewise, if a group of companies has insured the same risk, there is no necessity for each company to send their own individual inspector to examine the risk; information can be obtained through a central inspection service. The economical value of a central organization can be very well shown, too, in connection with the adjustment of fire losses. Assume that an insured had 15 fire insurance policies each with a different company. If a loss occurred, the former practice was for each company to send its own adjuster. At the present time the tendency is for a central service to be organized to adjust the losses for all the companies.

STANDARD POLICIES AND PROCEDURE.—Many difficulties arose in the past through the use, by different companies, of policies with different wording. Often, appeal to court decision became necessary. Realizing that the companies would be benefited by standard policy forms to be used by all, the various organizations have introduced such forms voluntarily, or in some cases as a result of the enactment of state laws. Furthermore, the associations have standardized the endorsements and clauses to be used by the various companies.

ENFORCEMENT OF RULES.—With the introduction of uniform rules, the associations have insisted on adherence to these rules. If any member violates these rules and engages in unethical practices, the member may be expelled from the association. The aim of the association is to stamp out entirely fraudulent practices and misconduct within the business itself.

PUBLIC RELATIONS.—Legislatures may attempt to pass ill-advised legislation laying undue burdens on the business of insurance. Special committees are set up by the various associations to observe the trend of legislation. Furthermore, the committees have introduced legislation which may ultimately mean lower rates for the insured.

EDUCATIONAL ACTIVITIES.—As the associations have developed the members have deemed it beneficial to have the asso-

ciations function as an educational force for the benefit of the public as well as of business. Various associations have prepared educational courses in safety work for the prevention of losses, have introduced safety devices, and have made financial contributions to safety museums.

Leading Underwriters' Organizations.—Among the important national underwriters' organizations may be mentioned: National Board of Fire Underwriters, National Bureau of Casualty and Surety Underwriters, National Council on Compensation Insurance, and National Automobile Underwriters' Association.

National Board of Fire Underwriters.—Membership is available to every stock insurance company writing fire insurance in the United States. Members are admitted by election or action of an executive committee. The board has no rate-making function, nor any jurisdiction over rates and premiums. It has nothing to do with commissions or compensation of agents, but concerns itself with fundamental activities.

The association operates through various committees. Some important committees are: committee on adjustments, committee on construction of buildings, committee on fire prevention and committee on incendiarism and arson, and public relations committee.

COMMITTEE ON ADJUSTMENTS.—This committee renders decision on loss adjustments between the companies through its arbitration service. It has available equipment for establishing a central adjusting office following a conflagration. In addition, the fire insurance companies have a central adjustment bureau which is under the jurisdiction of this committee.

CONSTRUCTION OF BUILDINGS.—This committee acts as a clearing house for information upon fire-resistive building construction and similar technical subjects. The committee has prepared a code which is a guide in the making of new building laws. The aim of the committee is to assist cities and towns in the preparation of new building codes.

COMMITTEE ON FIRE PREVENTION AND ENGINEERING STANDARDS.—Various fire insurance companies have realized

the danger of fire through congestion, especially in cities. The function of the Committee on Fire Prevention is to reduce this danger. The committee, therefore, conducts engineering surveys of American cities. These surveys include studies of the water supply, fire engines, and fire alarm apparatus and conditions in hazardous industries. As a result of these studies, each city is enabled to correct the deficiencies noted. Based on the committee's experience, a standard schedule has been prepared for grading cities and towns with reference to their facilities for fire protection. The committee has also issued regulations governing hazardous processes, storage of hazardous materials, and construction. These regulations have been included in a suggested fire ordinance, recommended for adoption by cities and towns and to be administered by a fire prevention bureau.

INCENDIARISM AND ARSON.—The purpose of this committee is to repress incendiarism and arson by causing the apprehension, conviction, and punishment of criminals who are caught in the act. In addition, a fund is available for rewards payable on the conviction of incendiaries. The committee has a staff of investigators who cooperate with officials in their activities against incendiarism. The committee has prepared a model arson law which has been adopted in many states.

PUBLIC RELATIONS.—This committee carries on educational activities relating to fire prevention. It has published various pamphlets, several of which are used in schools in the United States. The committee furnishes speakers for group meetings throughout the country to carry on the fire prevention work.

UNDERWRITERS' LABORATORIES.—To aid further in fire prevention, the underwriters' laboratories have been organized for the express purpose of testing articles, devices, supplies, gases, chemicals, and processes directly or indirectly associated with fire hazards, fire prevention, or fire-fighting. The laboratories have various types of testing apparatus which are used to test products sent to this laboratory. If the products meet the underwriters' laboratory tests they are labeled or otherwise distinguished.

✓ **National Bureau of Casualty and Surety Underwriters.**—

With the growth of casualty insurance companies a number of bureaus have been developed to handle the specific lines of insurance written by these enterprises. Outstanding among these bureaus is the National Bureau of Casualty and Surety Underwriters. A major objective of this bureau is to promote co-operation among casualty and surety companies and with fire and marine companies which transact other classes of insurance in which members of the bureau may have an interest. A second objective is to provide a form for the discussion of rating and other matters. In furtherance of these objectives, the bureau conducts the following activities:

1. The establishing and administering of plans to secure the compilation by members, and by others when necessary or advisable, of complete, accurate and up-to-date statistical data for use by the bureau in the establishment of underwriting rules, classification of risks, manual rates, and minimum premiums.
2. Collecting and analyzing experience.
3. Establishing underwriting rules, classification of risks, manual rates, and minimum premiums.
4. Establishing and administering rating systems and other plans to measure correctly the hazards of individual risks which are not measured correctly by classification experience alone.

The bureau is divided into five departments; compensation and liability, automobile, burglary, boiler and machinery, and plate glass insurance. Jurisdiction over workmen's compensation insurance is now with the National Council on Compensation Insurance but the National Bureau has administrative function for this line in certain sections of the country. The function of the remaining departments is to determine rates for the specific lines of insurance. This duty involves the classification of rates, establishment of schedules and experience rating systems, and the determination of underwriting practices. In order to facilitate the conduct of the business, branch offices are maintained throughout the United States.

National Council on Compensation Insurance.—This association is a voluntary organization of insurance carriers which write workmen's compensation insurance. Unlike the underwriters' associations previously discussed, its membership is not limited to stock insurance companies, but is open to any organization writing this form of insurance. Its membership, therefore, includes stock companies, mutuals, reciprocals, and state funds.

The chief objectives of the National Council are :

1. Formulating rates for workmen's compensation insurance.
2. Collecting and tabulating statistics pertinent to rate-making.
3. Developing rating plans and systems that will not only measure the hazard of each risk but that will produce the greatest possible accident prevention effect.
4. Administering such rates and rating systems in the interests of the insured, the carrier, and the public generally.

The National Council carries on its work through the rates committee, the actuarial committee, the engineering committee, and the regional committee.

The rates committee approves rating systems and procedure and has direct charge of general rate revision. The actuarial committee advises the rates committee on all actuarial and statistical problems relating to the combination of experience, the establishment of basic pure premiums, the formulation of fundamental principles for the conversion of pure premiums into rates and the establishment of rating plans. The engineering committee advises the rates committee on engineering matters and all matters connecting with the scheduled rating plan. Since the council is a national body and furnishes rates for the various states, regional committees are organized with authority over matters relating to any general revision of rates or rating plans for states within their respective jurisdiction.

The council maintains a rating department to administer rates in those states in which rate administration is not already in charge of independent bureaus approved by the state supervising authorities. Where the administration of rates is not in

charge of independent bureaus, the council can issue a charter to local administrative bureaus subject to approval by the state supervising officers. These bureaus serve under the general supervision of the rating department.

In states where independent bureaus have jurisdiction over workmen's compensation rates, these bureaus may affiliate with and obtain the service of the National Council.

The council is under the direct supervision of the National Association of Insurance Commissioners, a resident representative of which serves in the office of the council. It is his duty to keep informed and acquaint the national association with the terms of all rate-making procedure.

National Automobile Underwriters' Association.—This national organization operates essentially for the purpose of formulating underwriting rules for automobile fire insurance and allied lines. The primary objectives of this association may be summarized as follows:

1. Develop and facilitate scientific and intelligent underwriting of all forms of motor vehicle insurance.
2. Study and promote simplification and accuracy of rating methods and rate presentation.
3. Investigate class or general hazards and promote reasonable and proper means of reducing the hazards insured against.
4. Procure from companies and compile information and statistics concerning losses and their causes.
5. Seek agreement upon rules, regulations, and procedure in connection with the adjustment and payment of losses for the best interests of all concerned.
6. Secure the adoption by members of suitable and uniform policy forms and clauses.
7. Harmonize insurable values, methods of rating, agency commissions (including contingent commissions), and brokerage.
8. Serve as a medium for exchange of information.
9. Foster cordial relations with the automobile industry, legal authorities, and the general public.

Prominent among the committees of this association are the Staff Committee and the Regional Automobile Committees.

STAFF COMMITTEE.—Acting under the direction of the board of directors, the staff committee members perform the following duties:

1. Exercise generally the closest possible contact with all territory under the Association's jurisdiction.
2. Consider all requests from company members for changes in existing methods of rating and minimum schedules.
3. Prepare and recommend for adoption by the board of directors suitable changes in existing methods of rating, schedules of minimum rates and rate presentation.
4. Procure and compile any statistics required by the board of directors and prepare and forward to members all blanks necessary to obtain this information.
5. Consider all requests from company members for additional policy forms, clauses, and endorsements or for any changes in existing policy forms, clauses, or endorsements and submit them promptly to the board of directors for approval.
6. Prepare and recommend for adoption by the board of directors desirable changes in existing policy forms, clauses, or endorsements.
7. Promulgate for use only a policy form, clause, or endorsement to meet an emergency arising from a temporary change in law or ruling of an insurance department or any other unusual situation not covered by the forms, clauses, and endorsements then in use, subject, however, to final action by the board of directors before its permanent adoption.
8. Assist the board of directors in maintaining necessary contact with individual automobile manufacturers, allied industries, and recognized organizations representing the industry.

REGIONAL AUTOMOBILE COMMITTEES.—Inasmuch as the National Automobile Underwriters' Association is concerned with automobile fire insurance and other lines throughout the

United States, regional automobile committees are established for the eastern, southern, western, and Pacific coast territories. The duty of each regional automobile committee is to assist the board of directors in administering the rules of the association. It also recommends suitable changes in forms and underwriting practices in the territory under its immediate supervision. These recommendations are not generally put into effect unless and until approved by the board of directors.

So long as its action does not in any way affect the interests of other regional territories, each regional automobile committee is permitted to originate additional forms or changes in forms to meet purely local conditions. These actions are acted upon by the board of directors or by an instrumentality of its own creation without reference to the other regional automobile committees for approval. Each regional committee is also given authority over the final rate levels applicable to its territory. Here again, the approval of the board of directors is required before the rates take effect.

National Automobile Theft Bureau.—This national organization cooperates with the National Automobile Underwriters' Association by promoting nation-wide policies and practices with respect to automobile theft prevention and recoveries and to law enforcement. The national theft bureau functions through local bureaus in carrying out its general policies.

This bureau aims to cooperate with state motor vehicle, license, and certificate of title departments in the identification, tracing, and recovery of stolen cars.

The bureau also aims to cooperate with the National Automobile Chamber of Commerce, United States Chamber of Commerce, Automobile Dealers' Associations, United States Department of Justice, and all other similar organizations and agencies interested in the prevention of automobile thefts, the recovery of stolen cars, effective legislation, and law enforcement.

The National Bureau operates throughout the United States, Alaska, Hawaii, and the Dominion of Canada. It maintains

exclusive jurisdiction as respects local bureaus with respect to: (1) all matters of nation-wide import in which the National Bureau may have an interest; (2) all matters affecting the general policy throughout the United States, in connection with automobile theft prevention, law enforcement, and automobile recoveries; (3) all matters involving cooperation with federal authorities.

The jurisdiction of the local bureaus, subject to the Federal laws and the statutes of the several states in their respective territories, extends and includes the application of the National Bureau's general policies, with respect to automobile theft prevention, law enforcement and automobile recoveries. Wherever possible the jurisdiction of the National Bureau is exclusive with respect to: (a) all matters affecting the investigation, identification and release of motor vehicles stolen in the United States and smuggled into the Dominion of Canada; (b) cooperation with the Canadian Department of Customs, Provincial Police and all other governmental or duly constituted organizations and agencies interested in preventing smuggling of stolen motor vehicles in Canada, the recovery thereof, and effective legislation and law enforcement in connection therewith.

Local Bureaus—New York Compensation Insurance Rating Board.—The New York Compensation Insurance Rating Board furnishes an example of a local bureau. This board was formed after the passage of the New York Workmen's Compensation Law in 1914. The New York Insurance Law required every company writing workmen's compensation, except the New York State Insurance Fund, to file rates and schedules with the superintendent of insurance. In order to avoid the abuses inherent in competition, a voluntary organization of companies writing workmen's compensation insurance was formed. This organization is called the Compensation Insurance Rating Board. Although the State Insurance Fund was not required by law to become a member, it has done so voluntarily, reserving to itself, however, the power of using its own rates.

The objects of this board are twofold: (1) to establish classifications and underwriting rules and to make adequate and reasonable premium rates for workmen's compensation insurance equitably adjusted to the hazard of the individual risk by means of a system of merit rating; (2) to reduce the number and severity of accidents, through encouragement given employers to improve conditions by the offer of reduced rates.

Any insurance carrier, including the State Insurance Fund, authorized to do the business of workmen's compensation insurance in the State of New York, is entitled to membership in the board. The board is under the general charge of a governing committee composed of five members, two representing stock carriers, two representing mutual carriers, and one the State Insurance Fund. The governing committee appoints the following committees:

CLASSIFICATION AND RATING COMMITTEE.—This committee consists of three stock carriers, two mutual carriers, and the State Insurance Fund. The function of this committee is: (1) to establish and maintain a manual of rules, classifications and rates and to make all necessary revisions and amendments in such manual from time to time; (2) to hear and determine all complaints from insurance carriers and employers relating to classifications and premium rates.

SAFETY ENGINEERING COMMITTEE.—The appointments to this committee are made in the same manner provided for the classification and rating committee. The functions of this committee are: (1) to aid the Staff of the Board in developing and maintaining a suitable program for the inspection of risks for classification and rating purposes; (2) to maintain and promote cooperative relations with the State Labor Department for the purpose of advancing uniformity in industrial safety codes.

ACTUARIAL COMMITTEE.—This committee consists of an equal number of participating and non-participating carriers. It is the duty of this committee to establish, maintain, revise, and amend the rate-making procedure for the determination of manual rates and levels and an experience rating plan for the rating of individual risks. It also establishes and maintains

statistical plans for records for exhibiting experience and the effect of rating plans and generally oversees the work of the board in connection therewith.

MEDICAL AND CLAIMS COMMITTEE.—This committee consists of an equal number of participating and non-participating carriers. The duties of this committee are: (1) to study the law and rules relating to administration of claims in the Labor Department; (2) to study the law and rules relating to the medical treatment of claimants for compensation; (3) to recommend such desirable reforms with respect to claim administration and medical treatment as in the judgement of its members may promote the best interests of the public.

COMMITTEE ON PAYROLL AUDIT.—This committee consists of an equal number of participating and non-participating carriers. The duties of this committee are: (1) to study methods and practices followed by the carriers in the audit of payroll; (2) to formulate rules for making test audits by the Board; (3) to recommend such desirable reforms as in the judgment of its members may promote the best interests of the public. The rules or recommendations adopted by this committee required the approval of the classification and rating committee before they become effective.

The Bureau cooperates with the National Council on Compensation Insurance on all matters relating to manual rules, classification, and rating plans.

CHAPTER 26

ORGANIZATION AND MANAGEMENT OF INSURANCE COMPANIES

Preliminaries in Formation.—Insurance organizations are usually corporations. As such, they are formed by virtue of state legislation, for a corporation is merely an artificial citizen created by the state and has only such powers as are specifically granted to it by legislation. Generally, insurance companies are organized under state insurance statutes and are subject, in addition, to the provisions of the general corporation law.

The following preliminaries must be considered in the formation of an organization: type of company, scope of proposed business, the proposed name, and preparation of the certificate of incorporation.

TYPE OF COMPANY.—The purpose of organizing an enterprise determines the type of organization that will be formed. If the purpose is to make profit as a result of investment of capital, the form of organization that will be formed is a stock company; if the purpose is to afford mutual protection, the organization will be a mutual or reciprocal company.

SCOPE OF PROPOSED BUSINESS.—To determine the scope of the business is a necessary step in view of the fact that generally under the laws of various states no corporation can be given power to transact all lines of insurance. Furthermore, the amount of capital required for stock insurance companies is dependent upon the different lines of insurance that the organizers propose to undertake.

THE PROPOSED NAME.—After the scope and character of the business have been determined, a name must be decided upon. In the business of insurance, as in other lines of business, the

name of the company is a very important trademark. The reader probably knows the names of a number of companies and will observe that they connote, to his mind, life insurance, casualty insurance, or fire insurance.

PREPARATION OF ARTICLES OF INCORPORATION.—After deciding on the type of company, the scope of its proposed business and its name, the articles of incorporation must be prepared. Since a corporation has no other powers than those which are set forth in the charter and the implied and incidental powers necessary to make the company function, the articles should be drawn up with great care and diligence and should be made as broad as possible. If the company should later on decide to perform functions which are not mentioned in the charter, it would have to obtain authority from the superintendent of insurance and, in some cases, legislation would be necessary. The charter does not usually contain any description of the provisions for internal organization of the company, this matter being left to the by-laws.

Articles of Incorporation.—In the various states no company can transact the business of insurance until a certificate of authority has been granted by the superintendent of insurance. This certificate is only given after an examination has been made under the direction of the superintendent. Before a certificate of authority can be obtained by any persons desiring to form an insurance corporation, they must file their certificate of incorporation with the insurance department for approval, later amendments to which must also be filed for approval. These articles must be signed by the persons signifying their intention to form a corporation and must contain the following important information :

1. Name of the proposed corporation.
2. Place where its principal office is to be located.
3. Kinds of insurance that are to be undertaken.
4. The manner in which the corporate powers are to be exercised.
5. The names of directors, the manner of their election, and the manner of filling vacancies.

6. The amount of capital (if a stock company).
7. Any other particulars necessary to explain the purpose of the incorporation.

The articles of incorporation are then submitted to the official counsel, who passes on the provisions and decides whether these provisions conform with the insurance law. If the charter meets with the approval of the legal counsel, the superintendent of insurance may then issue a certificate of authority to do business. If the name of the proposed company is similar to the name of any other company writing insurance, a certificate of authority may be withheld until the proposed company changes the name. This is done in order to avoid deceiving the public.

Organization Meeting.—As soon as possible after the certificate of incorporation has been approved by the state an organization meeting should be held in the state in which the corporation proposes to operate. At this meeting the directors may be re-elected and at the same meeting or a subsequent meeting, the officers are elected.

The by-laws, which have been previously prepared, are then adopted, together with all amendments that are necessary. These by-laws control the internal management of the company. They must not be inconsistent with the powers enumerated in the company's charter; in fact, they merely provide the method by which the powers stated in the charter are to be administered. The superintendent of insurance then examines the by-laws and determines whether all the financial requirements have been met. If the company is a stock organization, the amount of capital required by law, and a surplus as well, must have been subscribed and paid for prior to commencement of business. Similarly, a mutual company, which is not required to have an initial capital and surplus, must have met the requirements, which are frequently a minimum number of applications for policies for a certain amount of insurance and a guarantee fund. The company may then commence business.

Board of Directors.—As a general rule, a majority of the board of directors is necessary to constitute a quorum for the purpose of doing business at a meeting. In the hands of the

board of directors are all questions of business management and policy; and their acts cannot be disputed by either the policyholders or the stockholders, unless performed in violation of the powers of the company. Generally the board of directors appoints various committees to which the ordinary powers and duties are delegated. Two of the important committees are the executive and finance committees. The executive committee decides on general questions affecting the methods of carrying on the business. The finance committee controls investments and decides on investment policy of the company. Questions of bank deposits and mortgage loans, as well as the sale and purchase of real estate and securities, are under the control of this committee. All committees are guided in their functions by the officers of the company. In general, it may be observed that the main function of the board of directors is to supervise the active management of the company.

Department Organization.—The management of insurance companies is very similar to that of trust companies. At the head of the organization there is generally a president or other executive head. Theoretically, he is in charge of all departments of the organization; in practice, however, he usually centers his attention on one phase of the business. In many cases he is also chairman of the board of directors. Immediately below the president is the vice-president. As the corporation grows in size, there may be a number of vice-presidents who are in charge of various departments. The vice-president may be appointed to supervise, with the assistance of subordinates, the following departments, depending upon the type of company:

Agency department
Educational department
Underwriting department
Inspection department
Loss department
Legal department
Registrar's department
Treasurer's department
Comptroller's department

Actuarial department
Statistical department
Real estate loan department
Policy loan department
Publicity department
Advertising department
Supply department
Mailing department

AGENCY DEPARTMENT.—This is the most important department. Its duty is to secure new business for the company. The amount of new business depends upon the ability of the agency department to develop agents in the various states in which the company operates. Frequently, branch managers and general agents are appointed to conduct the business in various localities. For the use of the agents this department prepares literature, such as instructions on how to write the business, house-organs, and educational booklets.

EDUCATIONAL DEPARTMENT.—In many companies there is an educational department, the function of which is to educate agents and brokers in the various complex questions that arise. Often, especially in life insurance companies, correspondence courses in special subjects are conducted. There is a growing practice for the educational department to train groups of men in the routine and the underwriting practices of the home office, then give them training in the field, and thereafter appoint the people so trained as branch office managers in the various districts throughout the country.

UNDERWRITING DEPARTMENT.—The task of this department is the proper selection of risks. Personal investigation, as well as the statements made in the application, may be required for proper exercise of judgment. The department may appoint necessary medical examiners, if the matter is one of life insurance or accident and health insurance; or, in matters of property insurance, it may employ special help to investigate the application or to make a physical inspection of the risk.

INSPECTION DEPARTMENT.—This department is usually found in casualty companies and fire companies. Its duty is to aid the underwriting department in its selection of risks based upon physical conditions. Furthermore, if the risk had been accepted, inspectors are sent from this department to aid in reducing its hazard to a minimum. This is done by advising the insured how to reduce his rate by introducing devices and showing him how to keep his plant in the best physical condition.

LOSS DEPARTMENT.—This department adjusts claims. It makes an investigation of each claim, concludes whether the

claim is to be rejected or paid and, in the latter case, determines the amount. The proper operation of this department means much for success. The payment of just claims without undue emphasis on technicalities will help any company.

LEGAL DEPARTMENT.—This department is usually supervised by the chief counsel of the company. He is required to approve the legality of various applications and policy forms used in the underwriting department. The department handles the legal phases of the company's payments in case of loss, makes searches of titles in connection with real estate and mortgage transactions, prepares bonds and deeds, and defends the company in any law suits. In addition to the legal duties imposed upon the company by virtue of the business of insurance, the counsel may be called upon to represent the company in connection with state legislation affecting insurance and to see that the company complies with the various insurance laws.

REGISTRAR'S DEPARTMENT.—This department keeps a record of all applications made for insurance, as well as a copy of all policies issued. It may be said to be the central information bureau for the different departments of the organization.

TREASURER'S DEPARTMENT.—This department is the custodian of all securities and funds of the company, and in addition keeps a record of all financial transactions. Under the direction of the treasurer is a cashier. The treasurer is usually a member of the finance committee of the organization. He advises the committee on investments, on the status of the company, and on the financial condition of banks in which the company's funds have been deposited.

COMPTROLLER'S DEPARTMENT.—The accounting of the company is under the direction of the comptroller. His department keeps a record of all receipts and disbursements. In addition, the department acts as auditor of the various financial statements rendered by the agents.

ACTUARIAL DEPARTMENT.—This department is found for the most part in life insurance companies, but there is a tendency at present to introduce it in all lines of insurance. In fact, many casualty companies have already introduced such a department.

The purpose of the actuarial department is to prepare a scientific basis for rates. The members of the department draw up experience tables, assist in calculating premium rates and reserves, and determine dividends.

STATISTICAL DEPARTMENT.—This department cooperates with the actuarial department, where the latter exists. The purpose of the statistical department is to prepare figures analyzing the results of the company's operations. Where the company carries on multiple lines of insurance, the premium as determined by lines, losses, cost of doing business, and miscellaneous statistical information is prepared by the statistical division. This division, in addition, cooperates with the comptroller's department by furnishing figures for use in the general ledger of the company and for the financial statement.

REAL ESTATE LOAN DEPARTMENT.—This department functions especially in insurance companies which make a practice of investing large sums of money in real estate loans. Its principal function is to pass on applications for loans and to report on their advisability to the finance committee.

POLICY LOAN DEPARTMENT.—This department is found in life insurance companies where policies have a cash surrender value or loan value.

OTHER DEPARTMENTS.—In addition to various departments which have been enumerated, there may be a number of other departments. Among the more important are the following:

1. Publicity department, the purpose of which is to maintain proper relationship between the insurance company and the public, and keep the company before the public.
2. Advertising department.
3. Supply department.
4. Mailing department.

Insurance Agents.—As stated previously, the business of insurance is developed mainly through agents. Applications for insurance do not frequently come to the insurance company from the individuals desiring insurance. In fact, insurance companies usually do not look with favor upon an applicant coming

directly to the company, except, in cases where the company operates without agents. The latter is the situation especially in some mutual fire and casualty companies.

Since the great bulk of insurance is not obtained directly from the applicant, it is essential to have persons, known as agents, properly equipped to bring in business. As a general rule the agent must obtain a license from the state through a particular company in order to be permitted to act as agent for the company. After he is licensed he receives from the company a contract containing the following:

1. Rates of commission paid for each line of insurance.
2. The power of the agent to issue policies.
3. Prohibition of rebating, which is the practice of returning a portion of the commission to the insured.
4. The method of making remittances of premiums.
5. A stipulation providing that if a contract is terminated, the books of the agent belong to the insurance company and must be turned over to it.
6. A provision in some contracts that the agent cannot write the same lines of insurance for another company.

Types of Agency Systems.—There are three important types of agency systems: (1) the general agency, (2) the branch office, and (3) the direct reporting agency.

General Agency.—The general agency system is the oldest of the three. Under this system the company appoints a general agent and usually gives him exclusive control over specified territory. He, in turn, appoints a number of sub-agents who are responsible to him alone. He makes contracts with the sub-agents, pays their commissions, and controls their activities. For the most part, the first concern of the general agent is to obtain the maximum business from his district; and he devotes more of his time to this than to supervising the activities of sub-agents. The general agent receives a commission on his own business and an extra commission on all business produced through sub-agents. Out of these commissions he pays all necessary office expenses. At times he receives a share of the profits produced by his agency.

BRANCH OFFICE.—Under the branch office system, the company operates directly in the various territories. Branch offices are opened under a manager who is paid a stipulated salary. It is the duty of the manager to obtain agents who can produce business. In addition, he must understand the routine duties connected with various problems that arise in the office from day to day. If the branch develops business in excess of the normal amount expected, the branch officer often is paid a bonus in addition to his salary.

DIRECT REPORTING AGENCY.—Under the direct reporting agency system, agents are appointed by the home office and given a certain territory in which to operate. In most cases each agent is given exclusive control over a certain territory. The essential difference between the general agency system and the direct reporting system is that the general agent operates through sub-agents who produce business for him.

Special Agent.—To increase the number of agents in the field, the insurance companies appoint special agents, not to sell insurance, but to travel throughout the country forming agencies in territories where there have been none. Some special agents are trained at the home office. They are also prepared to lend their assistance in increasing the amount of business of the various producing agents.

The Broker and the Insured.—In some cases the agent or the branch office accepts business from people who solicit the insured directly, but have not contractual relationship with the insurance company. Such persons are known as brokers and are paid a commission depending upon their premium writings. The broker may be said to be a representative of the insured. He, therefore, has no power to issue policies or to decide on premium rates. He can offer his business to any company. In some states it is necessary to pass an examination before one is permitted to solicit business as insurance broker. In some cases, a broker is required to subscribe to the underwriting practices of certain bureaus before such bureaus will permit a member company to pay the broker any commissions.

CHAPTER 27

REINSURANCE

Reasons for Reinsurance.—The solvency of an insurance company may be threatened by heavy losses on its policies. A life insurance company may therefore be unwilling to insure a single life for, say, \$250,000. A fire insurance company may for the same reason not care to assume the entire hazard of insuring a large building.

Under the stress of competition, a company may find it difficult to refuse an application for insurance in excess of the company's limits. If the agent were advised that the company he represents limited the insurance on any risk to \$5,000 and if he were offered a risk for \$100,000, he would be compelled to place the \$95,000 excess insurance with several companies in the capacity of broker. This procedure would be unsatisfactory to the agent as his commission would probably be thereby reduced. Furthermore, it might irritate the insured if he did not desire more than one policy.

Because of the convenience afforded by large-amount policies, companies which accept this business are likely to be favored. Accordingly, many companies encourage their agents to write large-amount policies for their clients.

To survive the heavy losses which might follow the insuring of large-amount risks, insurance companies have devised a method of spreading the risk by reinsurance with other companies. Originally the method of reinsurance was as follows: A company analyzed the various risks on its books and found that the risks were too large or too hazardous. It then requested another company, transacting similar business and operating in the same market to accept a certain portion of its risks. In return for this acceptance, the first company would accept a portion of the risks of the second company. From this begin-

ning there developed ultimately companies which were organized primarily to accept risks of other companies.

Principles of Reinsurance.—A reinsurance transaction is a transaction in which the company accepting the risk cedes a part of that risk to another insurance company. In consideration of the acceptance of the risk, the reinsurer receives a premium from the company which originally accepted the risk, just as the original company received a premium from the insured for the acceptance of the risk.

The original idea was that the reinsurance was primarily a benefit to the company giving away part or all of the risk. In accordance with this idea, the rates charged for reinsurance were high. Upon discovery of its profitability when properly underwritten, however, reinsurance has proved a benefit to the original insurer, the policyholder, and the reinsurance company.

In general practice, the insured receives from the writing company a policy for the full amount of the risk. In case of loss he must look to that company for indemnity. He has no information of the manner in which the company reinsures its liabilities.

If a claim is made by the policyholder, he must notify the company which issued the policy and that company, in turn, notifies the reinsurance company that a loss has occurred under the reinsurance agreement. The insuring company adjusts the claim and pays to the policyholder the amount due. The reinsuring company then pays its due proportion to the company from which it accepted liability. The insured is concerned only with the company that issued the policy to him, and collects the amount of loss directly from that company.

Types of Reinsurance Systems.—There are two important types of reinsurance systems: facultative reinsurance and treaty reinsurance.

Facultative Reinsurance.—If an insurance company desires to reinsure a particular risk or part of a risk, the facultative reinsurance system is used. This situation arises when an insurance company finds it necessary to accept a large risk, or decides that certain risks on the books expose it to a great haz-

ard. The insurance company then sends its representative into the insurance market to discover whether or not any insurance company will accept part of the risk.

Under the system of facultative reinsurance, the reinsurer is usually liable for a portion of the risk, under the same terms and the same obligations as the ceding company. The reinsurance premium is determined with each transaction. Since there is no agreement to accept that contract, the reinsurer may demand any premium. The premium charged may be higher than the premium charged by the ceding company to the policyholder. Since facultative reinsurance may not be favorable to the ceding company, it is used only to protect the insurance company against excess losses.

During the past decade, large companies have acquired control of small companies in the fire insurance lines. The group of companies is known as a fleet. Through the use of these smaller companies, the controlling company has found an easy outlet for the reinsurance of its surplus lines, and at the same time has been able to retain indirectly, because of financial interest, the premiums which would otherwise have been ceded to other companies.

Incidentally, the controlling company is benefited by being able to accept, from the members of the group, reinsurance which heretofore had been disposed of through foreign channels.

This practice still retains a measure of the facultative process because of the fact that each member of the fleet, as a rule, may desire to retain the privilege of accepting each risk. There is a wide latitude, however, for obtaining the protection desired, because of the possibility of a greater spread of the business and the acquisition power of the leading member of the group.

DANGERS OF FACULTATIVE REINSURANCE.—The use of facultative insurance exposes a company to the following dangers:

1. The company may wish to accept a large risk from an agent and yet be unable to accept the full risk because of doubt as to its ability to obtain facultative reinsurance.

2. If the company accepts a large risk and facultative reinsurance is not obtained, the company exposes itself unduly.
3. Since reinsurance is obtained for each risk, and the reinsurance company may be situated at a distance from the ceding company, a loss may occur before reinsurance is effective.

Treaty Reinsurance.—The reinsurance treaty is a contract between two insurance companies, whereby the direct insurer agrees to cede, and the reinsurance company agrees to accept, a certain proportion of all business.

Reinsurance treaties are divided into two classes: excess cover treaties and quota share treaties.

EXCESS COVER TREATIES.—The terms of the excess cover treaty provide that the insurer retain a certain amount of the risk and the reinsurer accept a portion of the excess above the fixed amount retained by the insurer. To illustrate the excess cover, assume that an insurance company desires to retain \$5,000 liability on all risks. An agreement may then be made with a reinsurer whereby the reinsurer agrees to accept a certain amount, such as \$5,000, of each risk over \$5,000. If, for example, the original insurance company accepts a risk of \$6,000, the direct insurer would retain \$5,000. This leaves a balance of \$1,000 which the reinsurer would accept. In case the risk accepted were \$4,000, then the reinsurer would not share in the risk.

QUOTA SHARE TREATIES.—The terms of a quota share treaty provide for a fixed participation of the reinsurance company in every risk accepted by the ceding company. Under the conditions of the treaty, the ceding company cedes a portion of every risk assumed, regardless of whether or not the amount is within the underwriting limit which it has set itself. It gives the reinsurer an interest in the numerous lines which ordinarily a company would keep entirely to itself, and it tends to produce a good underwriting profit for the reinsurer, provided, of course, that the ceding company has been careful in the selection of risks. Since the reinsurance company participates in each and every risk, the reinsurance company is, therefore, in

practically the same position as the insurance company which directly underwrites the risk. The direct-writing company is vitally interested in the type of risk accepted, because it is likely to suffer an underwriting loss in case the business is unprofitable.

Treaty reinsurance as explained above has been considered from the standpoint of the relationship between one insurance company and one reinsurance company. This is known as first line reinsurance.

It is not uncommon for a ceding company to have another treaty which is known as second line treaty, and in some cases there is also a third line treaty. That is, after ceding a portion of a risk to one reinsurance company, the direct-writing company can cede portions of the remaining risk to other reinsurance companies. To maintain protection satisfactorily under a pyramiding process of this nature, the ceding company must be sufficiently large to guarantee a fairly adequate income for its reinsurers.

Treaty reinsurance agreement may be automatic or open. Under the automatic treaty the direct-writing company is obligated to cede a portion of every risk of the claims described by the treaty. The reinsurance company is bound as soon as the direct-writing company accepts the risk. The open treaty provides that the direct-writing company has the right to cede whatever risks described by the treaty it desires to cede to the reinsurance company.

Under treaty reinsurance, the reinsurance company is commonly notified of transactions on a form called a *bordereaux*. All essential details regarding the transactions are typed on the *bordereaux*, and these are sent to the reinsurer at intervals, according to the terms of the contract. Considerable economy in details has been effected by the use of the *bordereaux* method.

Under the treaty contract, the ceding company usually has sole underwriting powers, and the reinsurer is bound to accept all items without protest and to honor all drafts for losses which may occur under the contract. The contract mutually arranged and agreed upon contains all of the conditions under which cessions can be made. As long as the parties thereto follow the

terms of the contract, the fortunes of the reinsurer are dependent upon the ceding company's good judgment and careful selection of risks and, above all, good faith. Some contracts may provide that borderline risks be submitted to the reinsurance company on a facultative basis.

There may be occasions when, through clerical error, the ceding company has failed to notify the reinsurer of an amount which, under the reinsurance contract, is a legitimate amount to reinsure and the error is not discovered until a loss occurs. Some treaty contracts provide that a risk must be bound by the reinsurer before the cession is effective. In many treaty arrangements, however, if the error is satisfactorily explained, the cession is permitted to be dated back. Of course, there is danger in leniency in matters of this kind, and the ceding company leaves itself open to criticism if many such cases occur.

A commission is paid to the original company for the business ceded. The reason for this is that all the cost of underwriting, acquisition, and preparation of bordereaux is borne by the ceding company. The reinsurer must maintain a fully equipped office, but the expense is low in comparison with that of the direct writing company.

Some reinsurers allow extra commissions in addition to the regular rate of commission paid to the ceding company. The feasibility of this plan is a moot point because the reinsurance is effected automatically in any agreement, on all risks, and no particular effort is made by the ceding company to select the better class of risk for the reinsurer.

Provisions for taxes and fees may be included in the reinsurance contract, as chargeable to the reinsurer. In some cases it is doubtful if the rate of commission charged by the ceding company is sufficient to cover the entire expense chargeable to the reinsurer. Nevertheless, the fact must be remembered that the ceding company derives ever-ready assistance and protection from the reinsurer, and that this is the chief purpose of the treaty.

Insurance Pools.—On occasion, a risk involves hazards that no company desires to accept individually. To meet this situa-

tion, insurance companies may enter a pool agreement. Various state laws, for example, require employers to obtain compensation insurance. If insurance companies were to refuse any specific employer's risk, that employer would be unable to obey the law. These insurance companies which are expected to write compensation insurance for employers of the state might be censured for this refusal. To escape criticism, insurance companies may form pools to underwrite certain classes of compensation risk subject to a high degree of hazard.

Any member company of the pool may write a risk covered by the pool agreement subject to the rulings of the agreement. Under this agreement, each company assumes liability for a certain portion of the risk.

The amount of liability accepted by each company depends upon several factors, including the financial condition of the company and its underwriting practices. While the pool is not an insurance company, it affords a means whereby an individual risk or a group of risks may be distributed among the various companies desiring or required to participate in the insuring of certain types of business.

Underwriters' Agencies.—In certain branches of insurance, such as fire, a risk may be accepted jointly and severally by a group of companies writing that type of insurance. In this event the insured may have the right to hold all or any of the companies named in the policy for the full amount of the loss. Had the risk been accepted otherwise, the insured could have looked to each company for no more than the amount as specified in each policy.

Excess of Loss Insurance.—A company may desire to limit its loss ratio in a given line of insurance. If prepared, for example, to suffer a loss ratio of 60%, the company could negotiate an "excess of loss" insurance contract, whereby the reinsurance company would pay any loss above a stipulated percentage. It is also possible to limit the loss percentage of the reinsurance company. This restriction would obviously impose limits on the underwriting policy of the direct-writing company. This form of reinsurance is desirable to limit the effects of catastrophes

which might otherwise seriously affect underwriters of particular lines of insurance.

Portfolio Reinsurance.—A company may desire to terminate its liability on risks in a certain line of insurance or to retire from all risks written through a specified agent. By a form of reinsurance called portfolio reinsurance, the company may then reinsure the specific risks of a certain line of insurance or the entire business of the particular agency with another company.

A company may become insolvent, in which event the policyholders, as well as claimants, may suffer loss. Insurance companies in their own interest are usually concerned about the insolvency of other companies. The practice, then, is for one or a group of insurance companies, if possible, to reinsure the insolvent company. Sometimes a company will reinsure another company even if there will be a loss. The reinsurance company will, however, acquire the plant of the company reinsured and probably obtain a number of the agents of the reinsured company. There is another possible source of profit, too, for the company which reinsures in bulk an insolvent company. The reinsuring company may be able to wind up the business at a lower expense rate than the company reinsured could and favorable claim adjustments may be made, if the amount of liability is not fixed by the policy.

Retrocession.—The basis of rate-making for a reinsurance company is the same as that for a direct-writing company. The law of averages applies to reinsurance as well as to insurance. Reinsurance companies must, therefore, be as careful as direct-writing companies to avoid concentration on similar risks. If, for example, a reinsurance company found itself heavily loaded with risks of certain types, it could arrange for the further reinsurance of part of these risks. When the reinsurance company cedes part of these risks, the process is known as retrocession. The ability of the reinsurance company to reinsure some of its risks further enhances the security of the insured and makes possible the success of the reinsurance company.

CHAPTER 28

INVESTMENTS OF INSURANCE COMPANIES

Investment Problems of Insurance Companies.—When an insurance company accepts a premium, the funds so acquired must be used, in part, to pay future claims and to provide for a return of a portion of the premium to the policyholders, in case the policy is cancelled before the policy period has elapsed. To meet these future obligations or reserves, the funds are invested in various forms of securities. Since the funds so invested are in effect a guarantee that the liabilities will be paid as they mature, great care should be used to guard against loss through investments.

Insurance contracts run for both short and long periods of time. In general, short-term insurance policies are used to protect against loss of property while long-term policies provide protection against loss of human life. The investment problem of funds covering short-time risks is for the most part not difficult. Short-term investments and bank deposits can take care of the obligations. A company writing short-term risks should build up reserves, however, to meet possible future catastrophes. The problem of investing funds to meet this need is quite similar to the investment problems of life insurance companies.

The reserves for claims and unearned premiums of insurance companies present two important characteristics, as follows :

1. Liabilities are estimated on the basis of past experience. In the absence of a catastrophe, the reserve may generally be calculated scientifically. Hence, the amount of assets required to meet the reserve may also be determined with fair accuracy.

2. In its investment practices, the company need not generally consider changes in the purchasing power of the dollar as far as reserve for premiums and unpaid losses are concerned, since

the obligation is to pay dollars. The changing price level, however, is of much concern in connection with the capital or surplus of a stock company and with the operating expenses of any company. Variations in the purchasing power of the dollar may also have a marked effect in certain lines of insurance, where the company's liability is measured in terms of replacement values.

Investment Principles.—Several important factors governing the investment policy of insurance companies are: (1) security of principal, (2) adequacy of yield, (3) necessity of diversification, (4) marketability, and (5) maturity.

SECURITY OF PRINCIPAL.—Security of principal is the most important investment element, since the primary purpose of an insurance company is to pay claims. Investments of a speculative nature which involve the possibility of large profits as well as large losses should therefore be avoided.

ADEQUACY OF YIELD.—The premium charged to the policyholders in many cases anticipates interest to be earned from investments as part of the premium. If the insurance company is to meet future liabilities, its yield from investments must at least equal this anticipated interest earning. Because risk ordinarily varies in direct proportion to yield, insurance companies do not assume a high rate of interest on investments, 3% frequently being the rate employed. The average yield may be in excess of the minimum required. In the life insurance field the excess has generally been used to reduce the cost of insurance to the policyholder.

NECESSITY OF DIVERSIFICATION.—An insurance company should not concentrate in investments. A good practice is to avoid putting too much in a single investment, or in a single class of investments, or in investments which are interdependent, or which depend upon the prosperity of one section of the country. Investments should be distributed geographically and among the various classes of securities. State statutes have been enacted to enforce this principle of diversification.

Decreases in earnings due to unfavorable conditions in certain businesses at various times are to be expected. Since other

groups of business may at the same time be enjoying favorable conditions, the principle of diversification enables a company to avoid serious decreases at any given time.

Diversification of investments will also protect the general investment fund, in case securities in which the insurance company has invested are later affected by a change in the management of the company which issued the securities. Of course, an insurance company should not invest funds where there is information of possible future change in management which might affect adversely the security value.

MARKETABILITY.—Under normal conditions, an insurance company need not pay special attention to marketability of securities. Usually current income will be sufficient to meet disbursements. In the event of a catastrophe, however, the insurance company would have to sell some of its investments. In such an event, marketability would have to be considered. As the insurance company usually possesses various types of securities, there may always be securities which are about to mature or which could be sold in the open market. The fact that marketability of securities is not important enables insurance companies to invest funds in mortgages on improved property which offer an attractive interest rate.

MATURITY.—Because marketability of securities is not stressed, an insurance company should have on hand sufficient liquid funds to meet claims as they mature. Furthermore, insurance companies must consider the relationship between present and future interest rates. Sometimes a company will be carrying large amounts of cash on hand. One reason for this is that the financial executive is expecting a change in market prices, which in turn will affect the interest yield in favor of the insurance company.

Legal Restrictions.—The various states have imposed restrictions on the investments that a company may make. Essentially the purpose of these statutes is to make explicit the principles that govern the sound investment of funds, and at the same time to see that these principles are observed. In making explicit the principles, the law states the type of securities that

may be purchased. The laws are not standard throughout the country. In general, they state the types of investments for capital and the types of investments for reserves and surplus. The laws permit wider latitude in investments for reserves and surplus than for capital.

The various legal restrictions serve the following purposes :

1. Insuring sound investments and preventing speculation. This may be seen in the laws which limit the purchase of stock or real estate. Other laws require all purchases of securities to be authorized by the board of directors. Still other laws prohibit any director or officer from making or asking a profit in any transaction involving his company.

2. Elimination of improper practice. This is illustrated by the laws which prohibit participation in the underwriting operations of a security pool, or prohibit the insurance company from carrying on any other business except insurance.

3. Forcing investments in certain fields. This may be illustrated by legislation which requires life insurance companies to invest a percentage of the assets, carried to meet the reserve on policies of residents of a state, in the securities of that state.

Investments Permitted.—The laws generally restrict investments to the following classes :

1. Bonds of the United States, any state or territory of the United States, and farm loan bonds issued by the federal land banks.
2. Bonds, notes, warrants, or obligations of any city, town, county, borough, township, municipality, or other government district located in the United States.
3. Loans upon unencumbered real estate up to a stipulated percentage such as two-thirds of its fair market value.
4. Loans upon life policies, not exceeding the net value of the policy at the time of making the loan.
5. Stocks and bonds or other evidences of indebtedness of any solvent domestic corporation. A life insurance company is usually not permitted to invest in common stocks, though certain states are more liberal in this respect.

6. In those states where companies transact business abroad, they are permitted by statute to invest in the securities of foreign governments sufficient amounts to qualify under the laws of those countries to do business therein.
7. Real estate, if the property was acquired for the conduct of the company's business.
8. Real estate, if acquired in satisfaction of debts previously contracted in the course of business or obtained under foreclosure to save the company from loss. In these cases, the real estate must be disposed of within a limited period which the insurance commissioner may extend if he decides the company will suffer materially from forced sale.

Effect of Economic Conditions.—To a great extent, the investments made by insurance companies have been affected by economic conditions existing at the time the investments were made. During the period immediately following the Civil War there was a great need for capital to construct our railroads. Insurance companies invested heavily during the period in securities of railroads. During the World War, insurance companies made extensive investments in various bonds issued by the United States Government. In the past the funds of insurance companies have met the capital needs of the building construction industry.

Suitability of Investments.—Because of legal restrictions, investments of insurance have been made in the following classes: stocks, bonds, collateral loans, mortgage loans, real estate, and policy loans. The general suitability of these investments may be briefly considered.

Stocks.—Stocks may be objectionable as an investment for insurance companies on the following grounds:

1. If the insurance company has less than a controlling interest, the investment is at the mercy of those holding the majority interests.
2. If the investment is large, there is the temptation to control the company. This means participation in a business which is foreign to the business of insurance.

BONDS.—Legislation tends to favor investments in bonds which may be purchased with due regard to security, yield, diversification, marketability, and maturity. Furthermore, if a bond is a long-time issue, the investment expense is low. On the other hand, bond investments possess the serious disadvantage of a declining yield as the security back of the issue decreases.

COLLATERAL LOANS.—These are loans secured by stocks or bonds as collateral. This form of investment is advantageous to an insurance company with large amounts of cash on hand at times when it is inadvisable to purchase securities.

MORTGAGE LOANS.—Mortgage loans offer insurance companies a very favorable form of investment, since, though not easily marketable, they offer an attractive interest yield. This fact may be demonstrated in the case of a life insurance company which maintains its reserves on a 3% basis though earning a higher percentage on mortgages. Of course, there are grave dangers in investing in mortgages. To protect itself, an insurance company should demand a title insurance policy from the mortgagor, as well as adequate insurance protection against loss of the improvement by accident, such as fire. As stated previously, the insurance laws generally prohibit loans in excess of a specified percentage of the market value of the property. After issuance of the mortgage the market price and earning power of the property may decline. In this event, the insurance company might have to foreclose the mortgage and take a deed to the property. This danger may be minimized by a good mortgage department and a proper geographical distribution of mortgages.

Another way to safeguard mortgage investments is to require the reduction of the principal by payments over a period of years. The advantage of this requirement is that the margin of safety will be maintained or increased.

In addition to the attractive yield that mortgage investments offer, they permit a company to build up good will. Continued investments of this type bring the company close to the average man and help in the fight to gain favorable public recognition.

REAL ESTATE.—The various legislatures are opposed to the investment of insurance funds in real estate on the following grounds :

1. The investment is frequently speculative. A decrease in price may cause a permanent loss in assets.
2. The investment cannot be marketed as easily as securities listed on the stock exchanges.
3. Determination of the actual value is difficult.
4. The investment requires the insurance company to enter a business foreign to that of insurance.

POLICY LOANS.—These are advances made on life insurance policies. The rate of return is attractive and there is ample security for the loan. If the insured does not repay the loan, the policy will be cancelled and the cash surrender value will be used to repay the loan. Nevertheless, extensive use of the policy loan is not good for the insurance company. As stated previously, if the loan is not repaid, the policy is lapsed and the number of the policyholders reduced.

Investment Control.—With their growth, insurance companies, especially of the stock type, may seek to control many industrial corporations and thus become investment trusts. The management may be content to write insurance at a loss if necessary, if at the same time the initial capital, surplus, and collected premiums can be invested for control. Should this condition develop, it is certain that legislation will effect the cure.

Valuation of Investments.—Investments that insurance companies make are further regulated by the method of valuation. Companies are required by law to carry certain assets at market value. If, for example, a stock were purchased during the year for \$125, and the market value were \$150, the stock would be valued at \$150 in the financial statement. On the other hand, if the market price were \$120, the latter value would have to be used for the statement. The theory on which this procedure is based is that the assets should be carried at the realizable value. Certain objections to this method may be mentioned :

1. If the market prices fluctuate rapidly, each day will see a new valuation of the stocks.

2. If the market value is less than the book value, the market value should be used; this is good conservative practice. If, however, the market value is greater than the book value, the book value might be used. A note might be added to the statement informing the public as to the amount of the market value above the book value. If this suggestion were followed, the surplus would not be increased by a fluctuation in the market.

3. This practice may lead to difficulties. If there should be a serious break in the market prices, even though temporary, a company might find itself theoretically insolvent. Furthermore, in time of national distress, the stock exchange may discontinue to function or prices may be pegged at certain artificial levels. In this event, the insurance departments would be forced to set figures based on artificial prices. In fact, there have been times in the past when market values were not used, and prices were fixed by the National Association of Insurance Commissioners.

Amortization.—Companies are permitted to use a different method for valuation of bond investments. The method used by insurance companies may be illustrated by the following: Suppose a company maintains its reserve on the assumption that money is worth 3% per annum. Having funds available for investment, the company seeks to purchase desirable securities. A bond paying 5% was purchased during the year at \$1,109.75. On December 31, the market value of the bond was \$1,099.75, \$10 less than the purchase price. Companies with sufficient surplus theoretically need never be concerned with a forced sale of securities to obtain cash to meet maturing claims, and the assumption is that the bond will be held to maturity. Furthermore, a life insurance company need not concern itself with the fluctuation in the market price as long as the interest is paid and the principal is paid at maturity. Therefore, all that is required of the company is to provide funds sufficient to pay off the excess cost of \$109.75 at maturity of the bond, and thus avoid

any depletion of assets. The method used to provide for excess cost is to accumulate the amount of interest received in excess of the required yield. This procedure is called amortization.

Table 24 illustrates the amortization of a \$1,000 bond bearing 6% interest purchased at \$1,035.85 yielding 5% interest.

TABLE 24. AMORTIZATION OF A \$1,000 BOND BEARING 6% INTEREST PURCHASED AT \$1,035.85 YIELDING 5%

Date	Semi-annual Interest on Bond at 6%	Semi-annual Interest on Book Value at 5%	Amount for Amortiza- tion	Book Value
July, 1938.....				\$1,035.85
Jan., 1939.....	\$30.00	\$25.90	\$4.10	1,031.75
July, 1939.....	30.00	25.79	4.21	1,027.54
Jan., 1940.....	30.00	25.69	4.31	1,023.23
July, 1940.....	30.00	25.58	4.42	1,018.81
Jan., 1941.....	30.00	25.47	4.53	1,014.28
July, 1941.....	30.00	25.36	4.64	1,009.64
Jan., 1942.....	30.00	25.24	4.76	1,004.88
July, 1942.....	30.00	25.12	4.88	1,000.00

Table 25 gives an example of the accumulation schedule for a \$1,000 bond bearing 4% interest payable semi-annually purchased for \$956.24, yielding 5%.

TABLE 25. ACCUMULATION SCHEDULE FOR A \$1,000 PREMIUM BOND BEARING 4% INTEREST SEMI-ANNUALLY PURCHASED FOR \$956.24 YIELDING 5%

Date	Semi-annual Interest on Bond at 4%	Semi-annual Interest on Book Value at 5%	Amount for Accumula- tion	Book Value
July, 1938.....				\$ 956.24
Jan., 1939.....	\$20.00	\$23.91	\$3.91	960.15
July, 1939.....	20.00	24.00	4.00	964.15
Jan., 1940.....	20.00	24.10	4.10	968.25
July, 1940.....	20.00	24.21	4.21	972.46
Jan., 1941.....	20.00	24.31	4.31	976.77
July, 1941.....	20.00	24.42	4.42	981.19
Jan., 1942.....	20.00	24.53	4.53	985.72
July, 1942.....	20.00	24.64	4.64	990.36
Jan., 1943.....	20.00	24.76	4.76	995.12
July, 1943.....	20.00	24.88	4.88	1,000.00

CONSIDERATIONS FOR OR AGAINST THE PRACTICE OF AMORTIZATION.—The practice of amortization has been both commended and criticized. The contention is that market value should be used. The merits of this contention may be summarized as follows:

1. Since an insurance company is a trust institution, there is only one test for value and that is the market value. If a large number of bonds were offered in the market, the market price would probably decrease. Therefore, market price is only a theoretical price. Furthermore, the market price might be affected favorably or unfavorably by the operation of a pool.

2. By the use of amortized values higher than the market value over a period of time, the surplus is increased by a fictitious amount. In fact, it is possible that a company might be solvent if its bonds were valued on the amortization basis and yet, if the company decided to liquidate, the assets would be insufficient to meet the reserve. As an answer to this argument, the contention is made that a company need not concern itself with liquidation. Under ordinary circumstances, the company would continue in business long after the maturity of the bond. Therefore, if the security back of the bond is good and interest is paid regularly, no consideration need be given to market value.

3. If amortized values are used, mistakes in investments may be hidden from policyholders. This argument is answered by the fact that whenever a financial statement is prepared a schedule must be annexed stating the purchase price, amortized value, market price, and interest yield.

4. If the company must sell bonds carried on the amortized basis and the market price is lower than the amortized value, a loss will be suffered. The answer to this contention is that usually the ordinary income from premiums and investments is more than sufficient to pay disbursements. If the company expects to disburse more than the income, maturities of bonds may be arranged to provide for the difference. Losses may occur when there is a lack of coordination between the investment department and the actuarial department which computes the reserves; when investments are made without considering the ma-

turity of claims; and when a catastrophe is experienced. These possibilities, however, are remote.

5. The tendency is to sell those bonds whose market values are above the amortized value, and keep bonds whose amortized values are below the market price. This might seriously affect the solvency of the company. The answer to this contention is that insurance companies purchase bonds as a permanent investment. While the investment department of an insurance company studies the market closely, blocks of bonds owned by the insurance company are not normally thrown on the market. Insurance companies are usually purchasers and not sellers of investments.

6. An anomalous situation arises when insurance companies purchase the same type of bonds and carry them at different amortized values on their statement. One company, for example, might purchase a bond of a certain issue paying 101, and another company might purchase a bond of the same issue at 102. Since the premium in each case is different, the amortized value would be different. While this may be anomalous, corresponding anomalies may be found in other fields. An insurance company, to take another case, may give \$15,000 on a mortgage on one house at 5% and the same amount on an adjoining house, which is similarly constructed at 6%. Nevertheless, each mortgage is carried at \$15,000 in the financial statement.

7. The difference between the amortized value and market price might be used as surplus out of which dividends are paid. The answer to this argument is that a prudent management would give consideration to its sources of surplus.

Insurance Stocks as Investments.—The investments of insurance companies have become so huge that many individual investors are guided, in the investment of their own funds, by the investments made by insurance companies. As a result of this development, many have become interested in the shares of stock insurance companies.

Other incentives for investment in insurance stocks include the following:

1. Profits made by certain companies.

2. Capital requirements of large companies which must be met in part from outside sources.
3. Appeal to local sympathy for subscriptions in a local company.

The value of insurance company stocks is largely determined by the profit made from underwriting risks and the return on investments. Theoretically, the value of the outstanding stock may be obtained by determining the balance remaining, after deducting the liabilities from the assets. If this balance is divided among the total shares outstanding, the value of each share will be theoretically determined. As far as insurance stocks are concerned, the theoretical value will be affected by the following considerations :

1. Management. This factor may be ascertained by the past record of the company.

2. Excess of estimated claim reserves. Reserves should be adequate. The amount set aside, however, may be more than needed to pay the claims.

3. The reserve for unearned premiums. This reserve which is set aside by the fire and casualty companies may be greater than necessary. The fact that the company has disbursed a good part of the premium received for expenses, practically at inception of the policy, is not considered in computing the amount of reserves necessary for unearned premiums. For example, the following expenses have to be paid almost immediately: preparation and issuance of the policy contract, underwriting and investigation of the risk, and commissions. These amounts are not deducted from the unearned premium reserve. Furthermore, if the risks accepted are good, that portion of the unearned premium reserve available for future losses may not be entirely consumed.

4. Assets for which the insurance company cannot take credit in computing the surplus. In computing surplus, the company is not permitted by law to include certain assets. Examples of such exclusions are accounts due over 90 days in the case of fire and casualty companies and furniture and fixtures.

5. Possible increase or decrease of the value of investments

in stocks and bonds. Valuation of the stocks and bonds in the company's portfolio will depend upon careful analyses of the issuing corporations and estimates of their future earning power and the trend of future market prices.

6. Good will. A company which has developed a good loyal agency force is in a position to make profits. The development of an efficient force requires time and money. Insurance companies constantly seek executives who are popular with agents. Certain companies also spend money for national advertising designed to make their names known to the public at large. A commercial organization might set up an asset for good will, representing at least the money spent in developing good will; but insurance companies are not permitted to count good will, for any amount, as an asset. Any money spent for this purpose is deemed a disbursement.

CHAPTER 29

STATE SUPERVISION

Insurance companies permitted to do business in several states frequently find different statutes concerning the same subject in the various states. An attempt to eliminate some of the differences has been made through the organization of the National Association of Insurance Commissioners, in which the insurance department of each state has membership. This association has prepared uniform legislation and rulings for use in each state.

Broad powers and duties have fallen to the state department which has supervision over the insurance companies. These functions are customarily administered through one individual called the insurance commissioner or superintendent. As an illustration of the extensive powers of the superintendent, the statute may provide that the superintendent of insurance has been granted by the legislature the power to administer the law in any way that will best promote the interest of the people. In view of the broad powers granted to the superintendent, he frequently makes general rulings on a given subject which will guide his future decisions. As those rulings are assumed to be for the best interest of the business, insurance companies generally follow these rulings. A new commissioner is not necessarily bound by the rulings used by any predecessor. He may change these rules to meet any new situation.

The powers of the commissioner or superintendent cover the following activities :

1. Examination of insurance companies.
2. Incorporation of insurance companies.
3. Sale of stock.
4. Licensing of companies.
5. Reserves of insurance companies.
6. Investments of insurance companies.

7. Cost of doing business.
8. Deposits of insurance companies.
9. Wording of policies and endorsements.
10. Regulation of rates.
11. Acquisition of business.
12. Discrimination and rebating.
13. Settlement of disputes between insurance companies and insurers.
14. Licensing of brokers and agents.

Examination of Insurance Companies.—Under the law, the insurance commissioner has the power to examine all records of insurance companies. It is customary to provide by law for periodic examinations at intervals of not less than, for example, five years. The commissioner may appoint assistants to conduct the examination. When an examination is completed, the assistants must report to the commissioner in writing the facts ascertained by the examination and recommendations for corrections and improvements. The commissioner may publish these reports, and it is customary to give representatives of the company a hearing before any report is published. Hearings demanded by the company or held by the commissioner for any other reason are conducted informally.

Incorporation of Insurance Companies.—The incorporation of insurance companies is strictly controlled. Statutes generally provide a definite minimum amount of capital for the incorporation of a stock insurance company that desires to accept risks in certain lines of insurance. If the proposed corporation is to be a mutual, the law may require a guarantee fund as well as a specified amount of business available for the proposed corporation, before the company is permitted to transact business. There is usually a requirement for a minimum number of incorporators. One law requires 13 incorporators.

In certain states the certificate of incorporation is issued by the secretary of state. The decision of the insurance department usually guides the secretary of state. Any group of persons who desire to form an insurance company may visit the superintendent of insurance in order to ascertain his opinion

concerning the desirability of forming the corporation and what requirements he may demand in order that the group may receive permission to form the insurance company.

Sale of Stock.—The law exercises control over the sale of stock of an insurance company. Before stock may be sold, a license must usually be obtained from the insurance department. The superintendent must be satisfied in the following before granting the license:

1. The plans and purposes of the organization.
2. A reasonable amount of stock will be issued and sold at an adequate price.
3. Commissions and salaries for the sale of the stock will be fair.

Licensing of Insurance Companies.—Perhaps the greatest power of the insurance commissioner is his power to grant licenses without which no company has the right to do business in the state. A license must be issued by the superintendent whether the company is one organized in the state or a foreign corporation organized in another state, or an alien corporation organized abroad. In most states the license is issued annually, but in others, domestic companies are required to obtain one license which continues unless and until renewed. The insurance superintendent may revoke or refuse to renew the license. Any company which operates without a license cannot usually sue for premiums which are due from policyholders. An agent of a particular state who does business for a company which is not licensed in the state is held personally responsible for any losses suffered by an insured who obtained a policy through the agent issued by the unlicensed company. The grounds on which licenses may be refused are numerous and may be classified as general or specific. The general ground is illustrated by the laws of one state providing that the superintendent may refuse to issue a license, if in his judgment such refusal will best promote the interest of the people of the state.

Reserves of Insurance Companies.—The state is usually little concerned with the accounting methods of solvent industrial companies. However, the insurance law gives the super-

intendent power to regulate the valuation of reserves of insurance companies. Important reserves of an insurance company are reserves for unpaid claims and reserves for unearned premiums. The various insurance laws aim to regulate the valuation of these reserves. For example, the law may describe the method of computing the reserve for unpaid claims due under the various forms of liability policies. The insurance department may regulate the method of computing the premium which has not yet been earned by the company and is, therefore, a liability of the company to the policyholders. Similarly, the insurance department supervises the method whereby the reserves of life insurance companies in connection with policies and annuities are calculated as the law may name the table which the life insurance must use to compute these reserves.

Investments of Insurance Companies.—The insurance law limits the investments of life insurance companies. Fire, casualty, and marine insurance companies, however, have wide investment powers, already discussed at length in Chapter 28.

Cost of Doing Business.—In the interest of financial safety, some legislation has been directed to limiting administrative expenses of insurance companies. Efforts to control expenditures have been applied usually to all departments except the claim department. Certain laws, for example, set limits on acquisition costs for the first year of life insurance policies. Under another law, the entire amount of administrative expenses of several types of mutual companies is limited to a specified percentage of premium income.

Deposits of Insurance Companies.—The various insurance laws provide that the insurance company must deposit a definite amount of security with the state. The purpose of this deposit is to protect claimants. The general creditors cannot participate in this deposit until all claims of third parties arising out of policy contracts and the rights of policyholders are settled in the state in which the deposit was made.

Wording of Policies and Endorsements.—The wording of several policies issued by the insurance companies has been

enacted into the law, as exemplified by the provisions of the standard fire insurance policy. Each company which desires to cover any fire insurance risk must use the policy form stated in the law. Many laws require specific clauses, known as standard policy provisions to appear in certain policy forms. The standard policy provisions of life, accident, and health insurance policies are examples of this type. Some statutes require the use of standard endorsements. For example, liability policies may be required to provide that bankruptcy of the insured does not release the company from liability against third parties with claims against the insured who has become bankrupt. Finally, certain statutes require companies to use only policy forms approved by the superintendent of insurance in certain lines of insurance.

Regulation of Rates.—The insurance law may provide for regulation of rates. Under certain statutes, the superintendent must supervise the rates in certain lines of property insurance to insure their adequacy. Under other statutes the insurance company must file rate schedules with the state and obtain approval before the rates may be used. The insurance commissioner may be empowered to order an increase as well as a reduction in rates. The power to regulate rates incidently gives the superintendent the power to regulate various rules and practices of the insurance companies.

Rates for the life insurance business are regulated through laws requiring the use of certain standard life insurance tables for computing reserves. The law may also regulate payment by mutual insurance companies of dividends which result in a reduction of the premium charge and provide the methods when and whereby guarantee funds of mutual companies may be returned.

Acquisition of Business.—The insurance law regulates the methods by which insurance companies can acquire business. Companies are prohibited from misstating any facts or omitting any pertinent facts orally or in any publication. Sometimes business is obtained by misrepresenting the facts concerning a policy in another company. This is known as "twisting" and is

a serious offense under the insurance law. Furthermore, the law prohibits statements concerning future dividends that may be paid by mutual companies.

Discrimination and Rebating.—The law prohibits discrimination between like risks. If the risks present exactly the same hazard, each risk must be charged the same rate. Under the law all policyholders are assumed to be treated alike. Therefore, the law is violated if a commission is paid to an agent or broker who in turn gives part of his commission to a policyholder. The law seeks to prevent bribery or other inducements for the purchase of insurance. Under one law, for example, the most that can be spent on the insured is one dollar and this only in the form of an advertisement containing the name of the agent or broker.

Settlement of Disputes Between Insurance Companies and Insured.—Frequently when an insurance company refuses to pay a claim the insured must resort to legal action, which may involve considerable expense. Some laws have given the superintendent the right to interfere in disputes. The department of insurance may have a complaint bureau to help claimants and attempt the settlements of disputes. If the dispute involves a question of law, however, the bureau will not interfere.

Licensing of Brokers and Agents.—Under the law none can act for an insurance company as an agent or represent the insured as a broker until an application is filed giving information concerning the individual. References may also be required. In the past granting of permission by the state to act as agent or broker, followed the filing of the application. There is a tendency in some states to require the applicant to pass the examination concerning his knowledge of insurance. The law of one state provides that the applicant for a license to act as a broker or an agent for any company, except a life insurance company, must have been employed in the business for one year or have taken a course in insurance.

CHAPTER 30

LEGAL INTERPRETATION OF THE INSURANCE CONTRACT

General Principles.—An insurance policy is a conditional contract whereby the insurance company agrees to pay the insured for some specified loss, damage, or liability which may arise from some contingent event. To validate the contract, there must be present a specific risk which the insurance company assumes.

The policy may cover any loss resulting from the negligence of the insured, provided there is no fraud on his part. If the loss results from an intentional act of the insured, there is usually no liability under the contract. It is against the law for an insurance company to assume a risk which is illegal. The insurance policy, therefore, must be regarded, not as a wagering contract, but as a contract whereby the insured aims to avoid any loss contingent upon some scientifically measurable element of chance.

The contract of insurance is regarded as an executory contract. It is executed usually on one side by the payment of the premium covering the policy period, and on the part of the insurance company, it remains executory. The insurance company completes its part of the contract by providing protection against the potential loss assumed by the contract, or by indemnifying for actual loss. The contract may include conditions which must be met by the insured, in order that he shall be entitled to the payment of any claim under the policy. For example, a mercantile burglary insurance policy requires the insured to keep records from which a loss may be accurately determined. If this condition has not been met by the insured, he is not entitled to the benefits of the policy.

The insurance contract is usually personal in nature. When

the insured purchases a policy from the insurance company, he considers the character, the credit, and standing of the insurance company. Likewise, the insurance company investigates the character, standing, and attitude of the applicant for insurance.

Since the contract is personal it attaches only to the person. If, for example, an owner protects his property by insurance and then sells his property, the new owner is not automatically entitled to the coverage. As a general rule, the contract does not accompany the property. There are, however, a few exceptions to this general rule. Property, for example, may be covered by a perpetual fire insurance policy which automatically follows the owner, in whatever hands the property may be.

When entering into a contract of insurance, both sides must observe good faith. They must disclose all the necessary and material facts which affect the issuance of the policy.

The essential purpose of the insurance contract is indemnification. If the insured stands to gain in case of loss, the contract is void on the grounds that it involves a wager. As a general rule, the amount to be collected by a policyholder on property insurance for a loss cannot be agreed upon in advance, unless allowed by statute. Valued fire insurance policies, for example, are permitted by statute in certain states.

The life insurance contract, like that of insurance for protection against property loss, is theoretically based upon the principle of indemnity but, unlike the property insurance contract, it is actually not a contract of indemnity. This lies in the nature of the case. With regard to property, in the absence of a law permitting valued policies, the liability of the insurance company is the replacement value of the property, generally at the time of loss. It is impossible, however, to state with accuracy a valuation of any man's life. The insured arbitrarily decides the money value of his life for himself. Of two individuals with the same financial standing, one may carry policies for only \$5,000, the other policies for \$50,000. Both have valid contracts, since a life insurance policy for any amount is valid if the company is willing to issue the policy to the insured. Therefore, the principle of indemnity, while

theoretically operating in life insurance, does not actually operate. It has, however, in certain cases, power to make the life policy partially void. If, for example, a creditor has obtained a policy on the life of a debtor to guarantee payment of a debt due from the insured and the amount is greatly in excess of the obligation, the policy will be enforceable only for a reasonable amount.

Insurable Interest.—To recover on an insurance policy, the one who obtains the insurance must have an insurable interest. Insurable interest has been variously defined. With respect to property, it exists where the insured has a pecuniary interest in preserving property or, in other words, where the insured will suffer loss by the destruction of property. A person has an insurable interest in a property if the destruction of the property would cause him a money loss, the loss of a legal right, or the creation of liability.

The following are examples of an insurable interest in property:

1. Ownership of property in fee.
2. Interest arising from the giving of a mortgage on property.
3. Interest on account of acting as a bailee, commission house, or warehouse man in connection with property.
4. Interest which arises as a result of occupying the property as a tenant, and the possible loss of use of the property as a result of a contingency, such as fire.
5. The interest which arises from law-imposed liability for the property of others. A railroad carrier, for example, is liable for any loss or damage to property in its possession, except through an act of God, war, or invasion or inherent nature of the goods.

The valuation of the insurable interest is limited to the insured's interest in the property. The recovery, for example, by a lessee who has insured the property against fire, is limited to the cash value of his lease.

A valid insurable interest should generally exist at the time that the policy is issued. In certain cases the policy is valid if the insurable interest exists at the time of the loss. If there has

been a suspension of the insurable interest, the contract is not invalid, provided the interest has been recovered at the time the loss occurs.

Similarly, there must be an insurable interest to support the contract of life insurance. The insurable interest must exist when the life insurance policy is issued. Every person has an insurable interest in his own life. He can usually insure his life for the benefit of his own estate or for any other person whom he cares to designate as his beneficiary. The beneficiary does not have to possess an insurable interest in the policyholder's life, when the policy is issued to the policyholder and not the beneficiary. Blood and marriage relationship, such as that of father and child and of husband and wife, is sufficient to sustain the requirement for insurable interest. Accordingly, in the absence of statutory provision to the contrary, the beneficiary may procure insurance on the life of another person closely related to him by blood or marriage. Furthermore, a commercial relationship is sufficient basis for insurable interest. For example, one partner may pay for a life insurance policy upon the life of the other partner, to protect himself against suffering a loss upon his partner's death.

As distinguished from other branches of insurance, subsequent termination of the insurable interest will not invalidate the life insurance contract. If, for example, a creditor has obtained a life insurance policy to protect his loan in case of premature death of a debtor, and the debt is later paid, the policy is not void.

Divisibility of the Insurance Contract.—As a general rule, the contract of insurance is generally regarded as an entire contract and not as a divisible contract. If, however, the intention of the parties was to make the contract divisible, it will be so interpreted by the courts. When, for example, a contract is negotiated covering several pieces of property for which separate premiums are paid, the invalidity of one part of the contract will not make the entire contract void. This interpretation will not be permitted if contrary to any condition of the contract. When the contract contains a statement that any misrepresentation or

breach will render the entire policy void, this statement is rigidly interpreted as applying to an indivisible contract. In case the misrepresentation does not materially increase the hazard, however, the contract may not be invalidated.

Validity of Contract.—The following elements that are required for the validity of any contract must also be present in an insurance contract :

1. There must be an agreement which arises from an offer by the insured and an acceptance by the insurance company.
2. Both parties must be legally competent to enter into a contract.
3. The contract must be evidenced by the giving of a valuable consideration by the insured.
4. The policy must be for a legal purpose and not one which involves violation of public policy.
5. The policy must contain all the provisions which are required by law.

Parties.—As stated previously, every policy of insurance must have two parties—the insurance company and the insured. In addition, there may be a third person interested in the contract. Third parties that may be entitled to benefits under the policy include the beneficiary of a life insurance policy, the holder of a marine insurance certificate, an employee under a workmen's compensation policy, and parties injured as a result of negligent driving by the owner or by the representative of the owner of a vehicle insured against bodily injury.

In the absence of restrictive legislation, any individual, association, or corporation may become an insurer. In other words, whoever wishes to go into the business for insurance may do so, as well illustrated by the individual underwriter at Lloyd's. In the United States, however, the various states have imposed certain conditions upon all persons who desire to write insurance.

As stated previously, the business of insurance is usually conducted by corporations which are either stock companies, mutual companies, or reciprocal organizations. The laws of the various

states impose both formative procedure and regulations for the conduct of these various organizations.

Rights of the Foreign Insurance Companies.—Under the constitution of the United States, any citizen of one state has the same right to enter into a contract in a second state as a citizen who is a resident of the second state. Corporations do not come within the meaning of the word "citizen." The state, therefore, has the power either to exclude or admit any foreign insurance corporation on any condition which the state authorities deem reasonable. The license granted by the state to a foreign corporation can be revoked by the state.

If a statute makes the contract valid, in spite of the fact that the foreign insurance company has not met the requirements for admission to do business in the state, the contract is enforceable by the insured and may be enforced by the insurance company. The insurance company will usually be prohibited from setting up the defense that it has violated the law. If the law places a penalty upon the insurance company for doing business in violation of the law, the contract is valid and the penalty is deemed exclusive. The policy, however, cannot generally be enforced against the insured.

Competent Parties.—To enforce a contract of insurance, the parties must be legally competent. Anyone who can make a valid contract can become a party to the contract of insurance. An insurance contract made by an infant cannot be upheld against him on the ground that it is a contract for necessities. The contract is valid, however, unless disaffirmed by the infant. If the infant disaffirm the contract, he is not necessarily entitled to recover the premiums that have been paid. He may, however, obtain a portion of the premium if the policy so provides.

Alien friends are competent to enter into a contract of insurance. A contract made by an alien enemy is void. During a period of war, contracts made by former alien friends, who have become alien enemies, are suspended.

Following the general law of contracts, an insurance contract negotiated with a person of unsound mind is void, if he

has been judicially declared insane. When the insanity was not known at the time the contract was entered into, the contract is voidable. In case the insured becomes insane after the contract of insurance has been made and he cannot fulfill the conditions required by the policy, the insurance company is relieved from liability. If these conditions are not essential, however, insanity which arises after the making of a contract will not free an insurance company from liability.

To understand the status of a contract and the rights of the respective parties in the eyes of the law, the reader must comprehend the significance of the terms "void," "voidable," and "unenforceable." When a contract is declared void, neither party is bound since the agreement is construed never to have originated. A voidable contract, however, may be set aside usually at the option of one party or he may choose to affirm the agreement and to bind the other party. An unenforceable contract differs from these two in having been valid in the first instance, but through some contingency is no longer enforceable in the courts. The validity of a debt under the Statute of Limitations and the occurrence of war are examples of contingencies which may render unenforceable otherwise valid contracts.

Rights of Third Parties.—The rights of the parties under the policy are determined by a reasonable interpretation of the terms and the conditions stated in the policy. As stated previously, it is possible that a third person may be entitled to the benefits of the policy. The third person may be a beneficiary under a life or accident insurance policy, a mortgagee, or an assignee.

Rights of the Beneficiary.—As previously explained, a beneficiary is one who is designated by the insured to receive the amount designated by him under the policy. Under a life insurance policy, the right of the beneficiary depends upon the method by which he has been designated; that is, whether he has been vested with the right to the proceeds absolutely or conditionally. If he has been vested absolutely without the reservation by the insured of the right to change the beneficiary or, to use another term, without the right of revocation, the bene-

fiary has a vested interest in the policy. While the policy is in force this right cannot be set aside by any of the acts of the insurance company or of the insured without obtaining the consent of the beneficiary. Under these terms the right of the beneficiary may be defeated only by his death prior to the death of the insured.

If the insured retains the privilege of changing the beneficiary, the latter has no vested interest but merely the expectancy of a benefit. On the other hand, the designation of the beneficiary may be conditional—contingent upon the happening of some prior event. The insured may, for example, appoint A as beneficiary, and in case of death of A, B as the beneficiary. If A dies before the insured, B then becomes the beneficiary.

After a loss occurs, debtors as third parties can levy on any claim of the insured against an insurance company. This does not apply to insurance on property which is exempt from levy by statute. Policies of life insurance which are payable to the insured or his estate are subject, at maturity, to the claims of creditors. In addition, life insurance policies generally can be levied on before maturity, for the payment of debts, provided the policy has a surrender value. However, if the insured has designated a beneficiary, excepting his estate, the insured's creditors have no right generally to any interest in the policy.

Rights of the Assignee.—As a general rule, policies of insurance provide that assignment cannot be made without the consent of the insurance company. If the consent of the insurance company has been obtained, the assignment is considered valid. The insurance company will be bound by the terms of the original contract, if the assignee has an insurable interest.

The life insurance policy, unlike other types of policies, may be assigned to one who has no insurable interest, provided the assignment is made in good faith.

The policy may be assigned conditionally, as well as absolutely. To illustrate an assignment of the conditional type, take the case of a policy assigned without the consent of the insurance company and held as collateral security for the payment of a debt. In this event, the right of the assignee to any pro-

ceeds of the policy is limited to the repayments of the debt and of charges that have been incurred. On the other hand, if the assignment has been absolute and there has not been any fraud, the assignee may be entitled to the entire proceeds of the policy, even if these be in excess of the amount advanced.

Rights of the Mortgagee.—The right of the mortgagee as the third party under an insurance policy varies in accordance with the term of the policy. When the mortgagor has obtained the policy in his own name, the mortgagor has no right to the proceeds of the policy. If the mortgagor has insured for the benefit of the mortgagee, however, the proceeds in case of loss must be applied to the payment of the mortgage and cannot be used to repair the property without the consent of the mortgagee.

Making the Insurance Contract.—To effect a contract, there must be an offer by one party and an unconditional acceptance by the other. The form of the offer and acceptance is not important. The contract of insurance may be oral unless this oral contract is prohibited by statute. Furthermore, a temporary contract may be entered into orally in anticipation of a written contract. In any case, it must be a complete contract containing all the terms and conditions.

To complete a contract, all the essential terms must be expressed or implied. Furthermore, the validity of an oral contract prepared with an agent depends upon whether the agent of the corporation who is acting for the insurance company has the authority to make an oral contract.

For the most part, the insurance contract is evidenced by some writing. This writing may be either in the form of a slip known as a binder or in the form of a policy. The binder is a written memorandum to be replaced later by a policy, and offering protection temporarily to the insured. If a loss occurs while the binder is in force and before the policy is issued, the rights of the insured are subject to all the conditions contained in the policy subsequently issued.

A contract of insurance may be based upon an application prepared by the insured. If the application is accepted by the

insurance company and if reference is made to it in the completed contract, this application then becomes a part of the completed contract and binds both the insurance company and the insured. By agreement the application, when accepted, may become a binding contract even though the policy is not issued.

The completed contract of insurance naturally merges all oral statements which may have affected the transaction. In the absence of fraud, it is presumed that the parties have consented to all the terms of the policy. Furthermore, any conditions which the insured is required to perform prior to the issuing of the policy must have been satisfied. The courts have held that there is sufficient delivery of the policy, when facts can be shown to prove that the insurance company intended to be bound by the policy. In the absence of specific agreement, it is not essential that the policyholder should have actual possession of the contract.

The contract of insurance, as well as containing all the terms, may make reference to papers which are not physically part of the written contract.

The contract may consist of the following divisions :

1. Application and surveys which may be referred to in the policy and made part of the contract by the terms of the policy.
2. All the terms set forth in the policy.
3. Any endorsements made with the consent of the insured and the insurance company and attached to the policy.
4. Provisions stated in the charter of the insurance company giving it the authority to write the insurance policy.
5. Any statutes which may affect the policy.

Consideration for the Contract.—The parties of the contract may make any arrangement they desire for the payment of premiums. Theoretically, premiums are supposedly payable in advance. However, in the absence of any provision concerning the payment of a premium, if the policy has been delivered to the insured, although the premium has not been paid, the policy is in full force and effect. When the policy provides that the premium must be paid in advance in order to complete the con-

tract, no evidence can be offered concerning the validity of the contract unless the premium has been paid, or payment in advance has been waived by the insurance company. If the policy states that the premium has been paid, though contrary to fact, it is generally held that evidence of non-payment cannot be introduced.

The consideration for the contract is the agreement on the part of the insured to pay the premium, or to pay the premium and any subsequent assessments. This latter provision, of course, applies usually to contracts with mutual insurance companies. Any assessments levied in accordance with the terms of the agreement can be legally enforced against the policyholder.

If, for example, the insured fails to pay his life insurance premiums, the insurance company can terminate his policy, subject to any rights provided for in the policy or by statute.

The premiums may be paid by the insured, his agent, or any other person who may have an interest in the insurance. The mortgagee, who holds a fire insurance policy, obtained by the mortgagor and payable to the mortgagee, may pay the premium for the policy, if the mortgagor fails to do so.

There is no assumption under the insurance contract of any agreement binding the insured to pay subsequent premiums for renewal of his policy. In the event, however, a policy provides for renewals, non-payment of the required premium terminates or limits the company's liability.

In the absence of express provision, the insurance company is not required to give the insured notice of the date on which the premium is due.

For the protection of the insured, however, a number of states have passed laws requiring the insurance companies to give advance notice of the due date of premiums on certain policies.

In life insurance, failure to pay the first premium renders the agreement unenforceable, unless the payment is waived. Non-payment of subsequent premiums, however, has no effect on the validity of the contract, unless the policy provides for a lapse. Statutes have been enacted defining the privileges of the

insured if he desires the policy to lapse. The usual privileges, as previously explained, are as follows :

1. Cash surrender value.
2. Extended insurance for full amount of policy.
3. Paid-up insurance for less than the face of the policy.

Non-payment of Premiums.—Courts generally dislike policy provisions for forfeiture of the insured's rights because of non-payment of premiums. The courts will, nevertheless, enforce the provision when there is no alternative. Under the following conditions, however, failure to pay the required premium cannot be held to mean forfeiture of rights :

1. Waiver by the insurance company of the payment of premium at the time agreed upon.
2. Failure on the part of the insurance company to notify the insured, where the agreement or statute provides that insured should be notified.
3. Any act on the part of the insurance company which prevents the insured from paying the premium.

In the absence of an express provision in the policy, no portion of the premium is returnable, even though the risk is terminated before the end of the period provided by the policy.

This rule does not apply, however, when the risk is terminated by a wrongful act of the company or when the law requires a return premium for termination before the end of the contract period. If the insurance company was never liable under the policy, the premium paid must be returned.

Voiding the Agreement of the Parties.—The agreement of the parties may be voided in case of fraud, mutual mistake, or lack of good faith between the parties.

The exercise of good faith means that each of the parties to the contract shall disclose any fact which may be material, and that every statement made shall be true. Whether the fact is material or not depends upon whether or not such knowledge would affect the making of the contract by either party. In the making of the contract, the insured must state any material fact, the concealment of which would be regarded as an act of bad

faith, and must also tell truthfully any fact about which inquiries have been made. Any representation which is essential to the contract may be regarded as a warranty. The concealment of any fact that should be known makes the contract voidable in the hands of the injured party. If, however, the insured makes an incomplete answer, the contract is not void unless it can be shown that the insured acted in bad faith.

As soon as the contract is completed, the insured need not disclose any new facts unless such disclosure is required by the policy provisions. Furthermore, under certain circumstances there are facts which need not be disclosed at the inception of the contract. These circumstances exist when (1) the insurance company and the insured should have known the facts; (2) the insurance company can reasonably be presumed to know the facts; (3) the insurance company waives information concerning any facts about which knowledge is acquired.

Representations and Warranties.—A representation is a statement made to the insurance company as an inducement to the insurance company to issue a policy. Representations may be made prior to the issuance of the policy or at the time when the policy is issued.

A false representation made either innocently or fraudulently may, if material, void the contract. A false representation, if immaterial, in the absence of special statute has no effect on the contract. A representation dealing with future events or with anything about which accurate knowledge cannot be obtained is regarded as a matter of information.

A warranty is a statement made in the policy or included by means of a reference in one of the terms of the policy. Each warranty is regarded as an essential part of the contract. If the insured has made an untrue statement or fails to perform the warranty, the policy may be voided regardless of the question of materiality. The warranty may be either affirmative or promissory. An affirmative warranty makes a statement with regard to the facts, and this statement is accepted at the time the contract is made. In a promissory warranty, the insured agrees that he will perform certain acts mentioned in the contract or that certain conditions will exist through the life of the policy.

The differences between representation and warranty may be summarized as follows :

1. Warranties are an essential part of the contract, whereas a representation is an inducement to enter into the contract.
2. Warranties must be stated in the policy or referred to by one of the terms of the policy. A representation may be oral, written in the policy or referred to by one of the terms of the policy.
3. Warranties are presumed to be material. A representation must be proven to be material.

On account of the tendency of courts to interpret provisions of the policy as warranties, statutes have been enacted waiving this condition.

Subrogation.—Policies usually provide that after the payment of a loss by the insurance company, the company is entitled to subrogation of any rights that the insured may have against a third person responsible for the loss. Subrogation generally applies only to payment for loss of property and payment to the injured under liability policies, if a third party is responsible for the loss. The right of subrogation is usually limited to the amount of loss and expense paid by the insurance company.

Powers of Insurance Agents.—The business of insurance is carried on primarily through agents. The relation between the insurance company and its agents is created and terminated in accordance with the law of agency. Certain important principles govern the law of agency. They apply to insurance as follows :

1. One person, called the agent, cannot enter into an agreement for another, called the principal, unless proof can be shown that the authority for making this agreement was given to the agent.
2. An agent has the authority to enter into an agreement of insurance, if the principal has apparently given the agent the authority.

3. The insured cannot be held liable for any secret limitation placed upon the authority of the agent unless it has come to the insured's knowledge.

4. Any fraudulent act committed by the agent in the course of his employment will bind the principal, even though the act was not authorized by the principal, always provided the insured was not a party to the fraudulent act, and provided the act was within the apparent scope of the agency.

5. If the agent has knowledge of any material fact concerning the policy, this knowledge will bind the insurance company even though the fact was not communicated to his principal by the agent.

6. An agent cannot act for both the insurance company and the insured at the same time without the consent of both parties.

Like agents, executive officers and directors are subject to the general law of agency. A broker is an agent of the insured who acts on behalf of the insured to procure a policy from an insurance company. The insurance company is, therefore, generally not liable for the acts of the broker.

Under the law of agency, the agent cannot delegate the powers which have been conferred upon him to any other person, that is to a sub-agent, unless this delegation of authority involves the performance of immaterial acts or the insurance company has expressly or impliedly given the agent the authority to delegate his powers. The courts will hold that, under circumstances, such as the following, the insurance company has given the agent implied authority to delegate his authority to others:

1. The act was necessary to accomplish the functioning of the agency.
2. The delegation of authority was in accordance with custom.
3. The delegation of authority was known to the insurance company.

The acts of a sub-agent bind the insurance company in the same manner as the acts of the agent, subject to limitations of the contract of agency between the insurance company and the agent.

Limitations placed by the insurance company upon the agent

will bind the insured, provided the limitations are legal and have been properly communicated by one of the following methods:

1. Specific statement in the policy.
2. Limitations upon the agent's authority in the application for insurance.
3. Oral communication to the insured.
4. Communication by separate instrument to the insured.

If the limitations placed upon the activities of the agent are unreasonable or illegal, the limitations will be regarded as improper and of no effect on the rights of the insured.

Reinsurance Contracts.—The reinsurance contract is subject to the same legal interpretation as the insurance contract and to certain other special interpretations. These special interpretations arise from the nature of reinsurance and may be summarized as follows:

1. The liability of the reinsurance company is measured by the liability of the ceding company.

2. The policyholder as party to a contract with the ceding company obtains no rights against the reinsurance company. If, however, the reinsurance company has contracted with the direct writing company or otherwise expressly indicates its intent to pay the loss to the policyholder, he may as third party enforce this provision of the reinsurance contract.

3. If a settlement made by the ceding company with the policyholder imposes liability which was not assumed by the reinsurance company, the latter is released from liability.

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CHAPTER 3. LIFE INSURANCE

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